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Employee Ownership as a Corporate Governance Mechanism: Systematic Review of Agency Cost Implications in Capital Structure Theory

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Abstract

This systematic literature review synthesizes empirical evidence on the effects of employee ownership schemes on agency costs between shareholders and bondholders in publicly traded firms, identifies underlying causal mechanisms, and analyzes the implications for capital structure. The review follows the PRISMA 2020 guidelines, with a systematic search of the Scopus database. From 44 identified records, 11 studies passed the quality assessment; 8 of these provided sufficient empirical depth on the integrated employee ownership, agency cost, capital structure linkage and were retained for in-depth synthesis, while the remaining 3 studies are reported as supplementary evidence. Data were synthesized using narrative synthesis combined with thematic analysis and mechanism mapping. The included evidence is concentrated in the Chinese (50%) and French (37.5%) institutional contexts, with no studies from the United States, the United Kingdom, or other Anglo-Saxon markets captured by the search an explicit limitation that constrains external validity. The review reveals an asymmetric pattern: all 8 in-depth studies report that employee ownership consistently reduces equity agency costs through interest alignment, enhanced monitoring, and improved information quality, whereas the evidence on debt agency costs is moderate, context-dependent, and confined to two studies that document a curvilinear (U-shaped) relationship in which moderate levels reduce the cost of debt while excessive levels intensify bondholder concerns. Bondholder, shareholder conflict resolution itself remains substantially under-investigated; this gap is interpreted not as a defect of the review but as a substantive finding about the current state of the field. Employee ownership therefore functions as an effective governance mechanism for equity agency costs but requires careful calibration where bondholder protection is at stake. Critical research gaps were identified in the bondholder perspective, formal causal-mechanism testing, optimal ownership thresholds, long-term effects, and geographic representativeness, each of which is discussed as a priority for future inquiry.

Keywords: employee ownership, agency costs, capital structure, corporate governance, bondholder-shareholder conflict, ESOP, systematic literature review

1 Introduction

Agency theory has become a fundamental framework for understanding corporate governance and firms' capital structure since its formalization by Jensen & Meckling (1976). This theory explains the conflicts of interest that arise when firm owners (principals) delegate decision-making authority to managers (agents), who may pursue their own interests and act to maximize their personal utility (Eisenhardt, 1989). These agency conflicts give rise to agency costs, which include monitoring costs, bonding costs, and residual loss, all of which can ultimately reduce firm value (Fama & Jensen, 1983).

Within the context of capital structure, agency theory identifies two primary types of conflict. First, equity agency costs arise from conflicts between shareholders and managers, where managers may engage in the overconsumption of perquisites or exhibit excessive risk aversion (Jensen, 1986). Second, debt agency costs stem from conflicts between shareholders and bondholders, whereby shareholders may transfer wealth from bondholders through mechanisms such as asset substitution or underinvestment (Myers, 1977; Smith & Warner, 1979). Both types of agency costs play a critical role in shaping a firm's optimal capital structure and cost of capital (Harris & Raviv, 1991).

Employee ownership schemes, encompassing Employee Stock Ownership Plans (ESOPs), stock options, and direct employee share ownership, have expanded rapidly as mechanisms of corporate governance. In the United States, more than 14 million employees participate in ESOPs, with total assets exceeding $1.4 trillion (National Center for Employee Ownership, 2020). In Europe, employee ownership has experienced significant growth supported by favorable regulatory frameworks (Pendleton et al., 2016), while in China, corporate ownership reforms have driven the large-scale implementation of ESOPs (Liang et al., 2018).

The theoretical literature suggests that employee ownership can mitigate agency costs through several channels. First, it promotes an alignment of interests, as employees hold a financial stake in the firm (Core & Guay, 2001). Second, it enhances monitoring capability, since employees possess an informational advantage as organizational insiders (Kruse et al., 2010). Third, it improves information quality and transparency through more effective governance structures (Faleye et al., 2006). However, employee ownership may also raise concerns among bondholders, as wealth concentration risk could influence employees' and shareholders' risk-taking behavior (John et al., 2008).

Despite the extensive literature on employee ownership and firm performance, our understanding of how employee ownership influences agency costs, particularly from the bondholder perspective, remains limited and fragmented (Rosen et al., 2005; O'Boyle et al., 2016). Prior reviews have primarily focused on productivity effects (Kruse & Blasi, 1997) or employee welfare outcomes (Kurtulus & Kruse, 2017), with relatively limited attention paid to the implications of agency costs in capital structure decisions.

Agency costs between shareholders and bondholders constitute a critical determinant of a firm's optimal capital structure and cost of capital (Myers, 1984). Conflicts between these parties give rise to the underinvestment problem, whereby firms may forgo positive net present value (NPV) projects because the benefits accrue primarily to bondholders (Myers, 1977), as well as the asset substitution problem, which can be detrimental to bondholders (Jensen & Meckling, 1976). These agency costs are reflected in a higher cost of debt, the imposition of restrictive covenants, and suboptimal leverage levels, all of which ultimately diminish firm value (Rajan & Zingales, 1995). Employee ownership schemes have been proposed as a potential solution to agency problems; however, the majority of existing research has focused on equity agency costs arising from shareholder, manager conflicts (Beatty, 1995; Conte & Svejnar, 1990). The question of how employee ownership affects debt agency costs and bondholder–shareholder conflicts remains largely unaddressed. This lack of clarity is problematic, as employee ownership may generate dual effects: it can reduce agency costs through enhanced monitoring (Chaplinsky & Niehaus, 1994) or, conversely, increase bondholder concerns due to risk concentration (Beatty, 1994).

The literature is further characterized by fragmentation across different institutional contexts, types of employee ownership, measures of agency costs, and theoretical perspectives, which complicates the derivation of coherent conclusions (Kim & Ouimet, 2014). The absence of a systematic synthesis makes it difficult to identify consistent patterns, understand underlying mechanisms, or recognize boundary conditions. The gap in understanding from the bondholder perspective is particularly critical, given the importance of debt financing and the increasing emphasis on creditor rights within corporate governance frameworks (La Porta et al., 1998).
This systematic literature review addresses the central research question: How do employee ownership schemes influence agency costs between shareholders and bondholders in publicly listed firms? The sub-questions include: (1) how employee ownership affects equity agency costs; (2) how it influences debt agency costs; (3) what causal mechanisms link employee ownership to agency costs; and (4) how employee ownership shapes capital structure decisions through agency cost channels.

The PEO framework (Population, Exposure, Outcome) is employed to operationalize this review. The population consists of publicly traded companies, as they exhibit a clear separation between ownership and control (Berle & Means, 1932). The exposure is defined as employee ownership schemes, including Employee Stock Ownership Plans (ESOPs), stock options, and direct employee share ownership (Sesil et al., 2002). The outcome is agency costs, encompassing both debt agency costs and equity agency costs, which ultimately influence firm value (Jensen & Meckling, 1976).

Five objectives guide the review: (1) to synthesize empirical evidence on the relationship between employee ownership and agency costs; (2) to identify underlying causal mechanisms; (3) to analyze differential effects on equity versus debt agency costs; (4) to identify contextual factors and boundary conditions; and (5) to highlight research gaps and formulate directions for future research.

The review is grounded in the integration of several theoretical perspectives. Agency theory provides the core framework for analyzing conflicts of interest and the costs arising from information asymmetry (Jensen & Meckling, 1976; Eisenhardt, 1989) Capital structure theory offers a framework for understanding how agency costs influence financing decisions (Modigliani & Miller, 1958; Myers, 1984). The trade-off theory posits that firms balance the tax advantages of debt against agency costs (Kraus & Litzenberger, 1973), while the pecking order theory emphasizes the role of information asymmetry in shaping financing choices (Myers & Majluf, 1984).
Corporate governance theory provides a broader perspective on mechanisms that align stakeholder interests (Shleifer & Vishny, 1997). Employee ownership can be viewed as a governance mechanism that complements traditional control mechanisms (Faleye et al., 2006). Stakeholder theory extends the analysis by considering the impacts on multiple stakeholders (Freeman, 1984). In addition, information asymmetry theory is relevant for understanding how employee ownership affects transparency, which is critical for both equity holders and debt holders (Diamond & Verrecchia, 1991).

From a theoretical standpoint, this review contributes to agency theory by providing a systematic synthesis of employee ownership as a governance mechanism that affects multiple types of agency costs. Its integration with capital structure theory further extends understanding of how governance mechanisms influence financing decisions (Jensen, 2001). From a practical perspective, this review offers insights for policymakers in designing effective regulatory frameworks (Blasi et al., 2013), for firms in optimizing the design of employee ownership programs (Freeman et al., 2010), and for investors and creditors in assessing the implications of employee ownership. Methodologically, this review demonstrates the application of a systematic literature review approach characterized by transparency and replicability (Tranfield et al., 2003; Denyer & Tranfield, 2009).

Three considerations sharpen the contribution. First, prior reviews and meta-analyses on employee ownership predominantly examine firm performance, productivity, and employee welfare outcomes (Kruse & Blasi, 1997;Doucouliagos, 1995;O'Boyle et al., 2016) with limited explicit attention to the decomposition of agency costs into equity and debt channels and almost none to the bondholder side of the conflict. The present review reframes the established finding that employee ownership reduces agency costs by showing that this finding is overwhelmingly an equity-side finding, and by treating the evidence asymmetry across stakeholder groups as a substantive contribution rather than as background. Second, the review documents that the linkage between employee ownership and capital structure decisions in the existing literature is largely indirect, routed through agency cost channels, information quality, and risk redistribution, rather than through direct examination of leverage choice. Making this indirect pathway explicit is a contribution to how the literature should be theoretically situated. Third, the review identifies boundary conditions, curvilinear effects, ownership concentration interactions, and institutional moderators, that qualify the prevailing alignment narrative and point to a research agenda focused less on whether employee ownership reduces agency costs and more on when, where, and at what level it does so.

The Methods section outlines the systematic review protocol in accordance with the PRISMA 2020 guidelines (Page et al., 2021). The Results section presents the characteristics of the included studies, findings related to equity and debt agency costs, underlying mechanisms, thematic analysis, and identified research gaps. The Discussion section interprets the findings within the context of the existing literature, highlighting both theoretical and practical implications. Finally, the Conclusion section summarizes the key findings, contributions, and recommendations for future research.

2 Literature Review

Agency theory constitutes the core framework for understanding principal–agent relations and the costs that arise when delegated decision-making is not perfectly aligned with principals' interests (Jensen & Meckling, 1976;Fama & Jensen, 1983;Eisenhardt, 1989). For the purposes of this review, two distinctions are central: between equity agency costs (shareholder–manager conflicts; free cash flow misallocation, perquisite consumption) and debt agency costs (shareholder–bondholder conflicts; underinvestment, asset substitution, risk shifting) (Jensen, 1986;; Myers, 1977; Smith & Warner, 1979). The two cost categories interact through capital structure, since the financing mix determines which principal–agent axis is most exposed at the margin.
Capital structure theory provides the bridge from agency costs to financing decisions. Modigliani & Miller (1958) established irrelevance under perfect markets; trade-off theory restored relevance by introducing tax shields and bankruptcy costs (Kraus & Litzenberger, 1973) and pecking order theory reintroduced information asymmetry as a determinant of the financing hierarchy (Myers,

1984;Myers & Majluf, 1984). Harris & Raviv (1991) and Rajan & Zingales (1995) demonstrate that agency costs, information asymmetry, and institutional factors jointly shape observed leverage. For the present review, what matters is not the rehearsal of these theories in isolation but the recognition that the path from employee ownership to capital structure runs primarily through agency-cost and information channels, not through direct financing-mix choices, a point that the empirical evidence reviewed below will reinforce.

Corporate governance theory positions employee ownership as one mechanism, alongside board structure, ownership concentration, executive compensation, debt covenants, and the market for corporate control, through which suppliers of capital protect their claims (Shleifer & Vishny, 1997;Fama & Jensen, 1983;Core & Guay, 2001;Smith & Warner, 1979). Stakeholder theory enters as a complementary lens by treating employees as principals in their own right rather than as factors of production (Freeman, 1984;Jensen, 2001;Freeman et al., 2010), and information asymmetry theory by linking governance quality to disclosure quality and, through that, to the cost of capital (Akerlof, 1970;Diamond & Verrecchia, 1991;Healy & Palepu, 2001). La Porta et al. (1998) add that the legal and institutional environment conditions the effectiveness of every governance mechanism, including employee ownership.

The integration across these five lenses is not additive but interactive, and it is the interactions that have been least developed in the existing literature. Agency theory predicts that employee ownership reduces equity agency costs through alignment but is ambiguous about debt agency costs, which depend on whether enhanced monitoring (reducing risk-shifting) or wealth concentration (intensifying risk-shifting incentives in employee-shareholders) dominates. Capital structure theory predicts that this ambiguity translates into curvilinear rather than monotonic effects on leverage, the cost of debt, and the weighted average cost of capital. Stakeholder theory predicts that the relative weight of these effects depends on institutional voice arrangements; information asymmetry theory predicts that the disclosure-quality channel mediates the bondholder-side effect; and the corporate-governance perspective predicts that employee ownership is a substitute or complement for other mechanisms depending on context. The empirical literature reviewed below tests fragments of this integrated prediction set, with the bondholder-side and capital-structure-side fragments tested least often—precisely the gap this review documents.

Within this integrated framework, employee ownership is best treated as a multi-faceted, context-conditional governance mechanism rather than as a uniformly beneficial intervention. Interest alignment reduces equity agency costs; enhanced monitoring can reduce both equity and debt agency costs; improved governance reduces information asymmetry. However, excessive ownership levels may concentrate wealth in employee hands, intensify bondholder risk perceptions, and introduce stock-liquidity costs. The optimal level therefore depends on the firm's existing governance portfolio, the institutional environment, the type of employee ownership scheme, and the relative weight of shareholder versus bondholder protection in the local legal regime. The empirical evidence reviewed in Section 4 maps onto this theoretical scaffolding unevenly, with strong coverage of the equity-alignment fragment and weak coverage of the debt-agency and institutional-moderator fragments.

3 Research Method

This study employs a Systematic Literature Review (SLR) following the PRISMA 2020 guidelines to synthesize empirical evidence on the impact of employee ownership schemes on agency costs in publicly traded firms. The PEO framework (Population, Exposure, Outcome) is adopted as a guiding structure, where the population consists of publicly traded companies, the exposure refers to employee ownership schemes (including Employee Stock Ownership Plans (ESOPs), stock options, and employee share ownership), and the outcome comprises agency costs, including both debt agency costs and equity agency costs.

The literature search was conducted using the Scopus database with the following search string:
TITLE-ABS-KEY((("employee ownership" OR "ESOP" OR "employee stock ownership" OR "worker ownership" OR "employee share" OR "stock option*" OR "equity compensation" OR "employee shareholding") AND ("agency cost*" OR "agency problem*" OR "agency conflict" OR "agency theory" OR "principal-agent" OR "bondholder*" OR "shareholder*" OR "debt agency" OR "equity agency") AND ("capital structure" OR "leverage" OR "debt" OR "financial structure" OR "financing decision*" OR "ownership structure" OR "corporate governance")))*
The applied filters included a publication period from 2000 to 2025, English language, and document types limited to articles, review papers, and conference papers.

The inclusion criteria encompass studies that examine employee ownership schemes in publicly traded firms, explicitly link the analysis to agency theory or agency costs, and address issues related to capital structure or corporate governance. Empirical, conceptual/theoretical studies, as well as systematic reviews and meta-analyses with full-text availability, were considered eligible for inclusion.

The exclusion criteria include studies that focus solely on executive compensation, address legal or taxation aspects without governance implications, consist of non-peer-reviewed publications, discuss the topic only tangentially, or examine private or non-profit organizations without relevance to publicly traded firms.

In response to a substantive concern, that excluding studies for "insufficient bondholder data" would be inconsistent with the central research question, which precisely targets the bondholder gap, the synthesis strategy was revised. All 11 studies that passed the quality assessment are retained as part of the evidence base. They are stratified by depth of empirical engagement with the integrated employee ownership–agency cost–capital structure linkage: 8 studies offer sufficient empirical depth on this linkage to support full thematic and mechanism synthesis, and are designated as in-depth studies; 3 additional studies are reported as supplementary evidence and are referenced where their findings inform a particular theme. This stratification preserves transparency about the strength of evidence behind each claim while ensuring that the limited bondholder-focused literature is itself treated as a substantive finding rather than a methodological exclusion.

The search process yielded 44 records from the Scopus database. During the title and abstract screening, 9 records were excluded (4 not addressing employee ownership and 5 deemed irrelevant), resulting in 35 records. The full-text assessment excluded 24 articles (executive compensation only: 8; not addressing employee ownership: 6; limited agency focus: 5; not focused on publicly traded firms: 3; other reasons: 2), leaving 11 articles, all of which met the predefined quality criteria. Of these, 8 studies are designated as in-depth studies for the synthesis and 3 are retained as supplementary evidence. The selection process is illustrated in Figure 1.

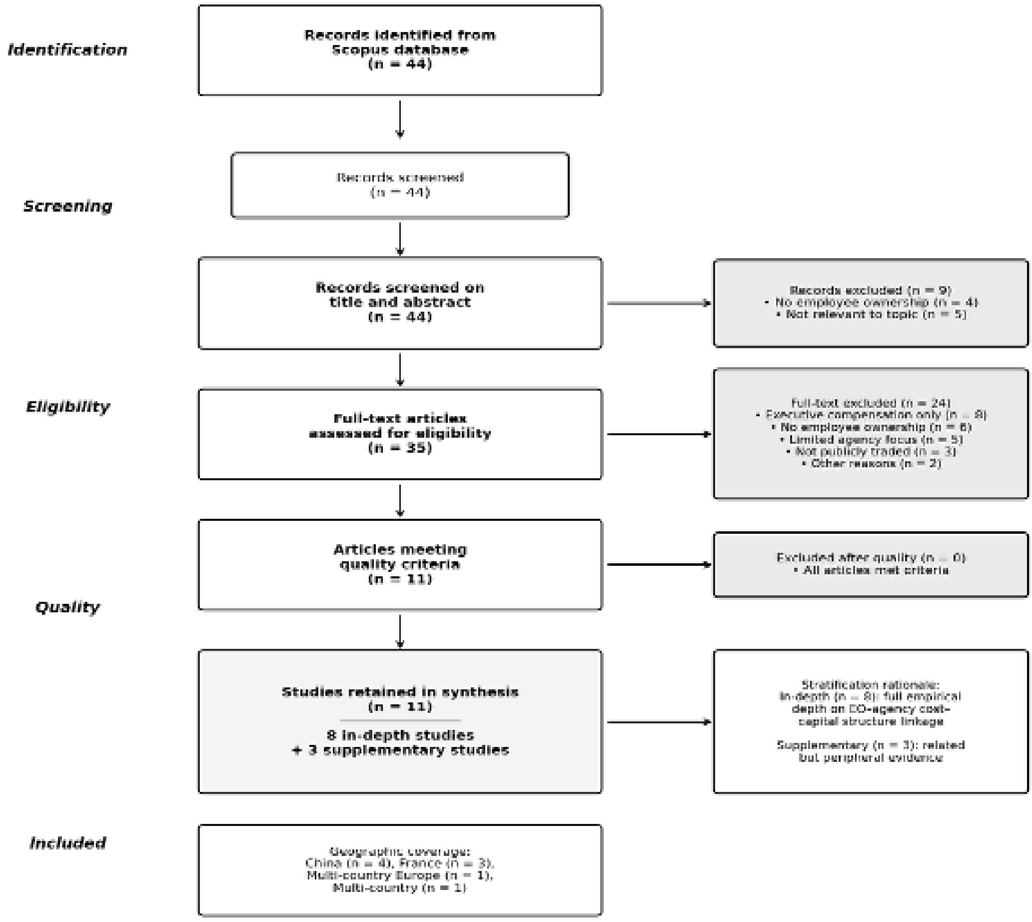

Figure 1 : PRISMA 2020 Flow Diagram

Data were extracted using a structured data extraction form, which included: (1) bibliographic information; (2) study characteristics (research design, methodology, sample, period, and type of employee ownership); (3) key variables (independent, dependent, mediating, and moderating variables); (4) main findings (effects on equity and debt agency costs, cost of capital, underlying mechanisms, and contextual factors); and (5) quality indicators. The extracted data were recorded in CSV format to ensure consistency and facilitate analysis.

A narrative synthesis approach was employed due to the heterogeneity of the included studies. The synthesis process involved organizing the studies based on key outcomes, namely equity agency costs, debt agency costs, and capital structure, followed by a thematic analysis to identify dominant patterns and recurring themes. In addition, a mechanism analysis was conducted to map the underlying causal pathways linking employee ownership to agency costs. An evidence quality assessment was also performed to evaluate the strength of evidence, with findings classified according to confidence levels (high, moderate, low, and insufficient evidence). Furthermore, research gaps were systematically identified and categorized based on their relative priority, providing a structured basis for future research directions.

To support source verifiability, all in-depth and supplementary studies cited in this review are traceable through the digital object identifiers (DOIs) provided in the reference list, in line with current expectations for transparent reporting and Mendeley-compatible reference management.

4 Research Results and Discussion

The Scopus search yielded 44 records, which were systematically screened. At the title and abstract stage, 9 records were excluded (4 did not address employee ownership; 5 were irrelevant to the research question), leaving 35 records for full-text assessment. At the eligibility stage, 24 articles were excluded for the following reasons: focus solely on executive compensation (8); lack of substantive discussion on employee ownership (6); limited focus on agency issues (5); absence of focus on publicly traded firms (3); and other reasons (2). The remaining 11 articles passed the quality assessment. As described in the Method section, these 11 are stratified into 8 in-depth studies and 3 supplementary studies.

The eight included studies were published between 2013 and 2025, with two distinct periods of concentration: 2013–2017 (4 studies) and 2022–2025 (4 studies), indicating a publication gap during 2018–2021. Geographically, the distribution is dominated by China (4 studies, 50%) and France (3 studies, 37.5%), with one multi-country European study (12.5%). Regarding the types of employee ownership examined, Employee Stock Ownership Plans (ESOPs) are the most frequently studied (5 studies, 62.5%), followed by general employee share ownership (2 studies, 25%), and non-executive employee ownership (1 study, 12.5%). In terms of research design, the majority of studies employ quantitative empirical methods (6 studies, 75%), while one study adopts a quasi-experimental difference-in-differences approach (12.5%), and another utilizes a theoretical empirical approach (12.5%).

This geographic concentration is a substantive limitation that the authors highlight prominently. No studies from the United States, the United Kingdom, Southeast Asia, Africa, or Latin America were captured by the search, even though the United States hosts the largest ESOP market globally (National Center for Employee Ownership, 2020). Several factors plausibly contribute to this pattern. First, the search was confined to a single database (Scopus), which may under-index work that appears in regional finance or labor-economics outlets. Second, the requirement that all three concept blocks, employee ownership, agency theory, and capital structure, co-occur in the title, abstract, or keywords is restrictive; many U.S. studies on ESOPs and capital structure are framed in terms of takeover defense, executive compensation, or productivity rather than agency costs and bondholder–shareholder conflict, and may therefore have failed the search string. Third, the existing meta-analytic and review literature based on U.S. data (e.g., O'Boyle et al., 2016; Kruse et al., 2010) tends to focus on performance and productivity rather than agency cost decomposition. The findings of this review should therefore be read as conditioned on the Chinese and French institutional contexts, with the question of generalizability to Anglo-Saxon and other emerging-market settings explicitly flagged as an open empirical question.

Table 1 : Characteristics of the Included Studies

Author(s)	**Year**	**Country**	**Methodology**	**Type of Employee Ownership**	**Main Findings**
Zhang et al.	2025	China	Quasi-experimental (DiD)	ESOP	Reduces equity agency costs; accounting quality acts as mediator
Cheng et al.	2024	China	Quantitative empirical	ESOP	Direct impact on capital structure through agency cost channels

Author(s)	Year	Country	Methodology	Type of Employee Ownership	Main Findings
Tran et al.	2024	Multi-country	Theoretical–empirical	Employee Share Ownership	Conflict-of-interest framework; affects market value
Zhou et al.	2024	China	Quantitative empirical	ESOP	Monitoring and incentive effects reduce agency problems
Adwan et al.	2022	Europe	Large-scale empirical	Non-executive employee ownership	Improves reporting quality; reduces information asymmetry
Aubert et al.	2017	France	Panel data (120 firms, 12 years)	Employee Stock Ownership	Curvilinear relationship with cost of debt and WACC
Ben Noamene et al.	2014	France	Empirical	Employee ownership	Affects governance mechanisms via ownership structure
Poulain-Rehm	2013	France	Empirical (2001–2005)	Employee ownership	Value creation suggests reduced agency costs

In addition to the 8 in-depth studies summarized in Table 1, three supplementary studies were retained for the broader evidence base. These contribute peripherally to the central research question, primarily by documenting governance or value-creation outcomes that bear indirectly on agency cost dynamics, but lack the empirical depth on the specific employee ownership–agency cost–capital structure linkage required for full mechanism synthesis. Their characteristics are summarized in Table 2, and where their findings reinforce or qualify those of the in-depth studies, they are noted in the relevant subsections.

Table 2. Characteristics of the Supplementary Studies

Author(s)	Year	Country	Methodology	Type of Employee Ownership	Peripheral Contribution
Salesina	2024	Conceptual / multi-country	Theoretical–qualitative	Employee share ownership (HRM framing)	Tensions between shareholder and partnership governance models; indirect HRM perspective on alignment

Cézanne et al.	2021	France (SBF 120)	Empirical (2000–2014)	Employee participation in governance	Cash distribution policy as indirect proxy for shareholder–bondholder conflict; long time horizon
(Cardoni et al., 2021)	2021	France	Qualitative–theoretical	Employee shareholder directors	Governance role and legitimacy of employee-shareholder directors; no direct agency cost measurement

All eight included studies provide consistent evidence that employee ownership reduces equity agency costs. Zhang et al. (2025) employ a quasi-experimental design using a difference-in-differences approach and provide causal evidence that Employee Stock Ownership Plans (ESOPs) reduce equity agency costs through employee–shareholder interest alignment, with accounting information quality acting as a mediating variable. Cheng et al. (2024a) and Zhou et al. (2024) further confirm the reduction in equity agency costs through different channels: Cheng et al. document effects on the debt–equity ratio, while Zhou et al. identify a dual mechanism consisting of monitoring effects and incentive effects.

From a European context, Adwan et al. (2022) provide large-scale evidence that non-executive employee ownership improves financial reporting quality, thereby reducing equity agency costs through lower information asymmetry. Aubert et al. (2017), using panel data from 120 French firms over a 12-year period, find that employee stock ownership functions as an effective alignment mechanism. Additional studies from France (Ben Noamene et al., 2014;Poulain-Rehm, 2013) and Tran et al. (2024) offer supporting evidence through various empirical approaches.

The consistency of findings across institutional contexts (China, France, Europe), methodologies (quasi-experimental, panel data, large-scale empirical), and types of employee ownership (ESOPs, general employee share ownership, non-executive ownership) supports a consistent, rather than universally strong, conclusion that employee ownership reduces equity agency costs within the bounds of the geographic coverage of the included studies. Given that the in-depth sample comprises only eight studies, the eight-of-eight agreement should be read as convergence within a small and geographically concentrated evidence base, not as definitive cross-context proof.

In contrast, the impact on debt agency costs is explicitly examined in only two studies, with findings indicating a more complex relationship. Aubert et al. (2017) identify a curvilinear (U-shaped) relationship between employee stock ownership and the cost of debt. At moderate levels, debtholders perceive employee ownership positively due to improved governance and stronger alignment, which reduces excessive risk-taking. However, at excessive levels, debtholders express concerns that wealth concentration risk among employees may influence firms' risk-taking behavior, potentially increasing perceived credit risk.

Adwan et al. (2022) provide indirect evidence that non-executive employee ownership enhances financial reporting quality, thereby reducing information asymmetry between firms and debtholders, which may in turn lower the cost of debt. Zhou et al. (2024) find that Employee Stock Ownership Plans (ESOPs) exert monitoring effects on corporate risk-taking behavior, which can be interpreted as a proxy for debt agency costs. Similarly, Cheng et al. (2024a) show that ESOPs influence debt–equity ratio decisions, indicating implications for the dynamics between equity holders and debt holders.

The remaining four in-depth studies and the three supplementary studies do not explicitly address the bondholder perspective or debt agency costs. This pattern is itself one of the most consequential findings of the review: despite a 25-year search window and a search string that explicitly named bondholders and debt agency, the empirical literature on the impact of employee ownership on the bondholder side of the agency cost equation remains thin. This thinness is not, on the present evidence, a search artifact alone; it reflects a genuine asymmetry in the field, in which employee ownership has been overwhelmingly studied from the shareholder–manager axis, with the shareholder–bondholder axis treated as derivative or implicit. Recognizing this gap explicitly is a contribution of the review and a primary motivation for the future research agenda outlined in Section 4.7.

Aubert et al. (2017) is the only study that comprehensively examines the impact of employee ownership on the components of the cost of capital. The study identifies a negative curvilinear relationship with both the cost of debt and the weighted average cost of capital (WACC), while finding no significant relationship with the cost of equity. The curvilinear pattern suggests the existence of an optimal level of employee ownership that minimizes the overall cost of capital.
Zhang et al. (2025) find that the implementation of Employee Stock Ownership Plans (ESOPs) has a negative impact on stock liquidity, with indirect implications for the cost of equity. Reduced liquidity may increase the liquidity premium required by investors, thereby potentially raising the cost of equity, even as employee ownership mitigates agency costs. This finding suggests a potential trade-off between agency cost reduction and liquidity concerns.

Adwan et al. (2022) provide evidence that improved financial reporting quality associated with employee ownership can indirectly reduce the cost of capital through decreased information asymmetry. Other studies offer indirect insights by examining related dimensions, including corporate risk profiles (Zhou et al., 2024), capital structure optimization (Cheng et al., 2024a), and firm performance implications (Poulain-Rehm, 2013).

Cheng et al. (2024) provide the most direct examination of the relationship between employee ownership and capital structure decisions, finding that ESOPs significantly influence the debt–equity ratio through agency cost channels, with a gradual dynamic adjustment process. Aubert et al. (2017) demonstrate that employee stock ownership affects the cost of debt and the cost of equity differently, implying that an optimal capital structure may be achieved through a balanced level of employee ownership.

Several studies identify important indirect channels. Zhou et al. (2024) show that the monitoring effects of ESOPs influence corporate risk-taking behavior, which in turn affects leverage choices. Adwan et al. (2022) identify an information quality channel, whereby employee ownership enhances financial reporting quality, facilitating access to financing. Similarly, Zhang et al. (2025) find that accounting information quality acts as a mediating variable, shaping the firm's information environment and, consequently, influencing financing decisions.

The analysis identifies three primary mechanisms and two secondary mechanisms linking employee ownership to agency costs. The first primary mechanism is financial stake leading to interest alignment, identified across all eight studies. This mechanism operates through employee ownership creating a financial stake that aligns employees' interests with those of shareholders.
The second primary mechanism is the dual role of employees as shareholders, leading to enhanced monitoring, identified in six out of eight studies. Employee-shareholders possess both an informational advantage and stronger monitoring incentives due to their direct financial stake.

Zhou et al. (2024) explicitly identify monitoring effects, while Adwan et al. (2022) demonstrate that enhanced monitoring contributes to improved oversight quality.

The third primary mechanism is improved governance leading to higher information quality, identified in four studies. Adwan et al. (2022) report this as a primary finding, while Zhang et al. (2025) identify accounting information quality as an explicit mediating variable. The first secondary mechanism is risk redistribution leading to altered bondholder perceptions, identified in three studies. Aubert et al. (2017) argue that employee ownership shifts part of the firm's risk from shareholders to employees, thereby influencing how bondholders perceive firm risk. The second secondary mechanism is ownership level leading to non-linear effects, identified in two studies. Notably, Aubert et al. (2017) document a U-shaped relationship, indicating that the effects of employee ownership vary depending on its intensity. Several mediating variables are identified, including accounting information quality (Zhang et al., 2025), financial reporting quality (Adwan et al., 2022), and risk-taking behavior (Zhou et al., 2024). Key moderating variables include ownership concentration and executive compensation structure (Zhang et al., 2025), as well as institutional context, level of employee ownership (Aubert et al., 2017), and broader firm characteristics.

Table 3 : Mechanisms dan Supporting Evidence

Mechanism	Pathway	Supporting Studies	Evidence Strength
Primary Mechanisms			
Interest Alignment	Employee ownership → Financial stake → Aligned interests → Reduced equity agency costs	8 studies (100%)	Very Strong
Enhanced Monitoring	Dual role → Informational advantage → Better oversight → Reduced agency costs	6 studies (75%)	Strong
Information Quality	Employee ownership → Better governance → Improved reporting → Reduced asymmetry	4 studies (50%)	Moderate–Strong
Secondary Mechanisms			
Risk Redistribution	Employee ownership → Risk shifts to employees → Altered bondholder perceptions	3 studies (37.5%)	Moderate
Non-linear Effects	Varying levels → Different impacts → Optimal level minimizes costs	2 studies (25%)	Moderate

The thematic analysis identifies six key themes. The first theme is the interest alignment mechanism, which appears in all eight in-depth studies (100%) with consistent evidence—qualified by the small sample size and geographic concentration discussed in Section 4.10—indicating that employee ownership creates a financial stake that incentivizes value maximization. The second theme is monitoring enhancement, identified in six studies (75%) with consistent evidence, whereby the dual role of employees as both workers and shareholders results in more vigilant oversight due to their informational advantages. The third theme is information quality improvement, observed in four studies (50%) with moderate evidence, highlighting improved financial reporting and reduced information asymmetry as key outcomes.
The fourth theme is non-linear relationships, identified in two studies (25%) with preliminary evidence but significant theoretical importance, suggesting the existence of optimal levels of

employee ownership and indicating that simple linear assumptions may be inadequate. The fifth theme is risk redistribution, found in three studies (37.5%) with emerging evidence, demonstrating that employee ownership can shift risk in ways that influence bondholder perceptions and firms' risk-taking behavior. The sixth theme is context-specific effects, identified in five studies (62.5%) with consistent evidence, indicating that institutional environments, regulatory frameworks, and ownership traditions significantly shape the observed outcomes.

The theoretical frameworks applied across the studies reveal a clear dominance of agency theory (8 studies, 100%), followed by corporate governance theory (7 studies, 87.5%), capital structure theory (3 studies, 37.5%), information asymmetry theory (3 studies, 37.5%), conflict of interest theory (1 study, 12.5%), and risk-taking theory (1 study, 12.5%). The most consistent body of evidence is found in relation to the impact of employee ownership on equity agency costs, where all eight in-depth studies report agreement; given the small sample, this is best characterized as convergence rather than as definitive proof. The three most methodologically rigorous studies are Zhang et al. (2025), employing a quasi-experimental difference-in-differences design; Adwan et al. (2022), utilizing a large-scale multi-country sample; and Aubert et al. (2017), based on panel data of 120 firms over a 12-year period.

Areas of strong convergence are identified across three dimensions. First, all eight studies (100%) agree that employee ownership reduces equity agency costs. Second, all eight studies (100%) identify interest alignment as the primary mechanism. Third, seven out of eight studies (87.5%) recognize employee ownership as a corporate governance mechanism. In contrast, several areas exhibit limited evidence or divergence, particularly across three critical aspects. First, the impact on the cost of debt is directly examined in only two studies, providing insufficient evidence for strong conclusions. Second, the effect on the cost of equity shows conflicting evidence, with an unclear relationship that appears to be context-dependent. Third, bondholder–shareholder conflicts are explicitly addressed in only two studies, creating a significant gap relative to the central research question.

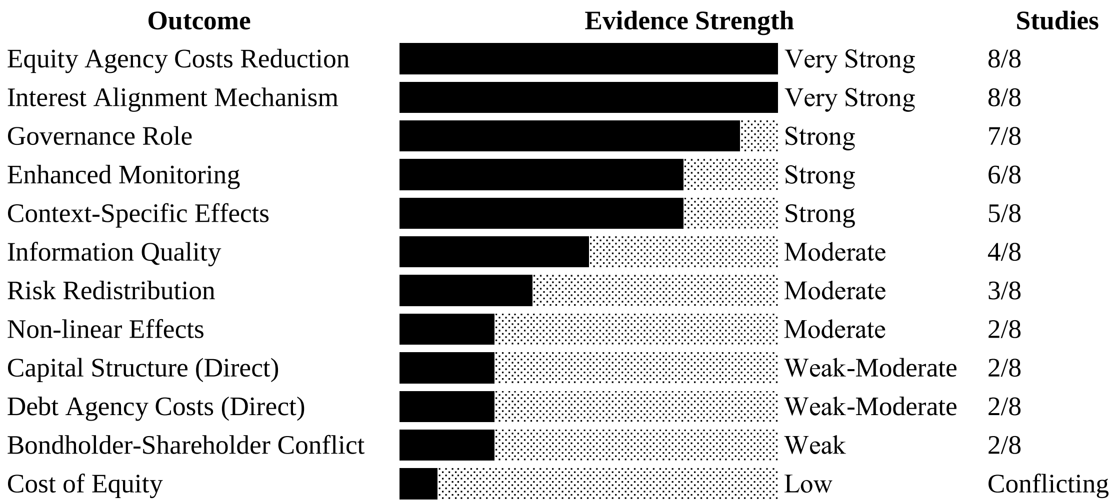

Figure 2 : Strength of Evidence by Outcome

The systematic analysis identifies seven key research gaps, categorized based on their level of priority. The critical priority gap concerns the bondholder perspective, as only two out of eight studies directly examine debt agency costs, creating a substantial gap relative to the central research question. This gap raises important unresolved issues regarding how bondholders price the risks associated with employee ownership and at what levels such ownership may trigger bondholder concerns.

The high-priority gaps include, first, causal mechanisms, where underlying mechanisms are often assumed rather than empirically tested, highlighting the need for more rigorous mediation and moderation analyses. Second, the issue of optimal ownership levels remains underexplored, with only one study identifying curvilinear effects and no clear consensus on the optimal percentage of employee ownership.

The medium-priority gaps encompass several areas. First, long-term effects remain insufficiently examined, as existing studies rely predominantly on short- to medium-term data. Second, geographic diversity is limited, with a concentration of studies in China and France, raising concerns about generalizability. Third, there is limited exploration of different types of employee ownership, as ESOPs dominate the literature, with insufficient comparative analysis across alternative schemes.

Finally, a low- to medium-priority gap relates to firm heterogeneity, as the predominant focus on large publicly listed firms constrains the understanding of applicability to small and medium-sized enterprises (SMEs) and unlisted firms.

Table 4 : Research Gaps and Priorities

Priority	Research Gap	Current State	Recommended Future Research
Critical	Bondholder perspective	Only 2 of 8 studies provide direct evidence	Dedicated studies using bond yield spreads, credit ratings, and covenant analysis
High	Causal mechanisms	Mechanisms assumed rather than tested	Formal mediation and moderation analyses; structural equation modeling
High	Optimal ownership levels	Only 1 study documents curvilinear effects	Systematic non-linearity examination; threshold and polynomial regression
Medium	Long-term effects	Predominantly short- to medium-term data	Longitudinal studies of 10+ years; survival analysis
Medium	Geographic diversity	China 50%, France 37.5%; no U.S. or U.K. evidence	Cross-country comparative studies including Anglo-Saxon and emerging markets
Medium	Types of employee ownership	ESOPs dominate the literature	Comparative studies of ESOPs, stock options, and broad-based plans
Low–Medium	Firm heterogeneity	Focus on large listed firms	Extended sampling to SMEs and unlisted firms

The descriptive synthesis above documents what the literature reports; the critical question is why the reported effects vary, where they hold, and where they fail. Four interpretive angles bear on this question and have been under-addressed in the existing literature.

The first angle concerns institutional moderators of the alignment mechanism. The four Chinese studies (Zhang et al., 2025;Cheng et al., 2024;Zhou et al., 2024) consistently identify ESOPs as agency-cost-reducing, but they do so within an institutional context shaped by partial state ownership, recent regulatory reform, and concentrated ownership structures that themselves impose monitoring. In such a context, ESOPs operate not in isolation but as a complement to other strong control mechanisms; the marginal contribution of employee ownership to alignment may therefore be amplified by the institutional baseline. The three French studies (Aubert et al., 2017;Ben Noamene et al., 2014;Poulain-Rehm, 2013) operate in a setting with long-standing employee ownership traditions, regulatory encouragement, and codetermination norms, where employee voice channels exist independently of equity ownership. Whether the same alignment mechanism would deliver comparable effects in Anglo-Saxon settings with dispersed ownership, weaker codetermination, and ESOPs that are often introduced as takeover defenses rather than as alignment instruments—remains an open empirical question. The 8/8 unanimity should therefore be read as: across two institutional contexts in which employee ownership operates as a complementary control mechanism, the alignment effect is observed; whether it survives outside those contexts is unverified.

The second angle concerns the boundary conditions of the curvilinear effect. Aubert et al. (2017) is the only study that directly identifies a U-shaped relationship between employee ownership and the cost of debt; Zhang et al. (2025) report a threshold-style interaction with ownership concentration. The remaining six in-depth studies do not test non-linear specifications, which raises the possibility that monotonic estimates in those studies mask a non-linear underlying relationship. If the curvilinear effect generalizes, then the headline claim that 'employee ownership reduces agency costs' is itself misleading absent specification of the level at which the relationship holds, a point that is rarely made in the primary studies and one this review foregrounds.

The third angle concerns the small but visible disagreement between studies on the cost of equity. Aubert et al. (2017) report no significant effect of employee stock ownership on the cost of equity, while the broader pattern across Zhang et al. (2025), Adwan et al. (2022), and Zhou et al. (2024) is consistent with positive effects through reduced agency costs and improved information quality. The discrepancy is rarely engaged in the primary literature. Three explanations are plausible: differences in measurement (estimated cost of equity from CAPM-style models versus inferred from accounting-quality channels), differences in time horizon (the Aubert sample ends well before the more recent studies), and differences in the institutional baseline against which marginal effects are measured. Each explanation has different implications for how the equity-cost effect should be expected to operate elsewhere, and none has been adjudicated empirically.
The fourth angle concerns the title-evidence relationship. This review is framed within capital structure theory, yet only Cheng et al. (2024) directly examines capital structure decisions; Aubert et al. (2017) examines the cost-of-capital components rather than financing-mix choice; the remaining studies address capital structure indirectly, through agency cost reduction, information quality, or risk-taking effects that capital structure theory predicts should flow through to leverage. The implication is that the empirical literature has not yet caught up with the theoretical positioning. Rather than treat this as a failure of the review, it is more accurate to treat it as a finding about the field: the theoretical case for employee ownership as a determinant of capital structure is more developed than the empirical case, and the most productive direction for future work is to close that gap with studies that directly examine the EO–leverage linkage rather than rely on agency-cost proxies.

Taken together, these four angles suggest that the literature's prevailing alignment narrative is best characterized as conditionally supported within a narrow institutional band, contingent on level, and indirect with respect to capital structure outcomes. The synthesis below should be read against this critical backdrop.

The central research question of this review examines how employee ownership schemes influence agency costs between shareholders and bondholders in publicly traded firms. Read in light of the critical interpretation in Section 4.10, the synthesis indicates that employee ownership is associated with reduced agency costs, but with strongly asymmetric effects between the equity and debt sides and with that asymmetry itself functioning as one of the principal findings of the review, not a uniformly large effect across all margins.

With respect to equity agency costs, the evidence demonstrates a consistent reduction across all eight in-depth studies (Zhang et al., 2025; Cheng et al., 2024;Zhou et al., 2024;Adwan et al., 2022;Aubert et al., 2017;Tran et al., 2024;Ben Noamene et al., 2014;Poulain-Rehm, 2013). The primary mechanism is interest alignment through employees' financial stake, which creates incentives for employees to act in line with shareholders' interests, thereby reducing monitoring costs and opportunistic behavior. The consistency across studies is real but should be qualified by the small sample size, the geographic concentration in China and France, and the institutional baseline considerations developed in Section 4.10.

In contrast, the evidence regarding debt agency costs is moderate and context-dependent, with only two studies explicitly examining this relationship (Aubert et al., 2017;Adwan et al., 2022). Aubert et al. (2017) identify a U-shaped (curvilinear) relationship in which moderate levels of employee ownership reduce the cost of debt, while excessive levels increase bondholder concerns due to wealth concentration risk. Adwan et al. (2022) show that improvements in financial reporting quality reduce information asymmetry between firms and debtholders. Regarding bondholder–shareholder conflict, the evidence remains highly limited and suggests a complex, level-dependent relationship: at moderate levels, employee ownership may mitigate conflict through improved governance and enhanced monitoring of excessive risk-taking (Zhou et al., 2024); at excessive levels, it may exacerbate such conflict (Aubert et al., 2017). Given that the central research question targets precisely this axis, the present review should be read as documenting both an asymmetric effect and an asymmetric evidence base, the latter being a substantive contribution to the field's research agenda.

These findings yield four main theoretical implications. First, employee ownership can be conceptualized as a third dimension of corporate governance, alongside board structure and ownership concentration. The dual role of employees as both principals and agents introduces unique governance dynamics, necessitating a multi-stakeholder agency framework to capture complexities that extend beyond the traditional principal–agent model (Jensen & Meckling, 1976).

Second, the evidence on non-linear relationships challenges the linear assumptions embedded in traditional agency theory. Aubert et al. (2017) document a U-shaped relationship with both the cost of debt and WACC, while Zhang et al. (2025) identify threshold effects associated with ownership concentration. These non-linearities suggest that optimal calibration of employee ownership is required, as excessive levels may become counterproductive.

Third, the findings highlight the need for deeper integration with capital structure theory, as employee ownership influences optimal leverage through its dual impact on debt and equity agency costs (Cheng et al., 2024a). Traditional frameworks such as the trade-off theory do not fully incorporate the role of employee ownership in financing decisions, indicating the need for a theoretical extension to capture the dynamic interaction between governance mechanisms and capital structure optimization.

Fourth, the identification of information quality as a mediating mechanism (Adwan et al., 2022; Zhang et al., 2025) links employee ownership to information asymmetry theory. Employee ownership not only reduces agency costs through interest alignment and enhanced monitoring, but also through improved transparency, which benefits both shareholders and bondholders.

From a policy perspective, the findings underscore the importance of promoting moderate levels of employee ownership rather than excessive concentrations within regulatory frameworks. Policy design should explicitly recognize curvilinear effects and avoid one-size-fits-all mandates (Aubert et al., 2017). Moreover, institutional context plays a critical role, as evidenced by differences between China, where employee ownership is often shaped by regulatory shocks (Zhang et al., 2025;Cheng et al., 2024;Zhou et al., 2024), and France, where strong employee ownership traditions prevail (Aubert et al., 2017;Ben Noamene et al., 2014;Poulain-Rehm, 2013). Importantly, the absence of evidence from the U.S. and U.K. markets means that policy lessons drawn here should not be exported wholesale to those settings without further empirical work. For firms, the primary implication is the importance of optimal level calibration when designing employee ownership programs. Firms should avoid excessive ownership levels, which may generate liquidity concerns (Zhang et al., 2025) or increase bondholder worries (Aubert et al., 2017). Employee ownership schemes should be complemented by other governance mechanisms, and firms need to monitor their effects on stock liquidity and the cost of capital. Maintaining transparency and high reporting quality is essential, as the reduction of information asymmetry represents a key channel through which bondholders benefit (Adwan et al., 2022).

For shareholders, employee ownership is generally beneficial as both a signal of governance quality and an alignment mechanism (Zhang et al., 2025;Zhou et al., 2024). Investors should carefully monitor ownership concentration to avoid excessive levels and assess its complementarity with executive compensation structures. The potential for long-term value creation should be considered, even if short-term liquidity costs may arise (Zhang et al., 2025). For bondholders, moderate levels of employee ownership can reduce information asymmetry and serve as a positive governance signal (Adwan et al., 2022). However, excessive ownership may heighten risk concerns (Aubert et al., 2017). Creditors should therefore monitor firms' risk-taking behavior (Zhou et al., 2024) and evaluate the overall governance package, rather than assessing employee ownership in isolation.

The findings are largely consistent with the predictions of classical agency theory, particularly regarding the reduction of equity agency costs through alignment mechanisms (Jensen & Meckling, 1976). However, this review extends existing understanding by identifying multiple mechanisms beyond simple alignment, including enhanced monitoring (Zhou et al., 2024;Adwan et al., 2022) and improved information quality (Adwan et al., 2022;Zhang et al., 2025) Notably, the identification of curvilinear relationships represents a novel contribution that has not been extensively explored in prior literature.

Prior literature reviews on employee ownership have predominantly focused on firm performance or productivity effects, with limited attention to agency cost implications, particularly from the dual perspectives of shareholders and bondholders. This review addresses that gap by systematically synthesizing evidence on both equity and debt agency costs. Its integration with capital structure theory also represents a contribution that has not been adequately addressed in previous reviews.

Some findings reveal notable contradictions. Aubert et al. (2017) do not find a significant relationship with the cost of equity, in contrast to other studies that suggest positive effects (Zhang et al., 2025;Adwan et al., 2022;Zhou et al., 2024). This divergence may be explained by differences in measurement approaches, time periods, or contextual factors. The complexity of the relationship suggests that mediating and moderating variables play important roles that remain insufficiently explored.

The included studies exhibit five main limitations. First, geographic concentration is pronounced: 50% of the in-depth studies are from China and 37.5% from France (Zhang et al., 2025; Cheng et al., 2024;Zhou et al., 2024; Aubert et al., 2017; Poulain-Rehm, 2013). The complete absence of evidence from Anglo-Saxon markets is particularly striking given that the United States is the world's largest ESOP market. Second, endogeneity concerns persist, as most studies rely on observational data with potential self-selection bias; only Zhang et al. (2025) employ a quasi-experimental design that addresses endogeneity through a regulatory shock, suggesting that causal inferences in other studies should be interpreted with caution. Third, there is a reliance on indirect measures of agency costs—proxies such as the cost of debt, financial reporting quality, or risk-taking behavior (Zhou et al., 2024;(Adwan et al., 2022) may not fully capture true agency costs. Fourth, most studies focus on short- to medium-term analyses, with limited longitudinal examination. Fifth, underlying mechanisms are often assumed rather than empirically tested; mediation analyses are rarely conducted, and moderation analyses remain limited.

This review itself is subject to several limitations. First, the search strategy was restricted to a single database (Scopus) and to English-language publications, which may have produced the geographic skew documented above; expanding to Web of Science, EconLit, SSRN, and grey literature, and supplementing with backward and forward citation searching from key U.S.-based studies, is the most direct way for follow-up work to address this. Second, the requirement that all three concept blocks co-occur in title, abstract, or keywords is a strict filter and likely excluded U.S. studies that frame employee ownership in terms of takeover defense, executive compensation, or productivity rather than agency cost decomposition. Third, the use of a single reviewer in the screening process may increase the risk of inconsistencies, although decisions were documented for transparency. Fourth, the narrative synthesis approach inherently involves a degree of subjectivity in identifying patterns. Fifth, the small number of in-depth studies limits the ability to systematically assess publication bias or to perform meta-analytic aggregation. The review therefore presents itself as an evidence map and gap analysis rather than as a definitive quantitative synthesis.

Despite these limitations, the review offers five strengths. First, it demonstrates methodological rigor through adherence to PRISMA 2020. Second, it provides a multi-dimensional analysis examining employee ownership from equity, debt, capital structure, mechanism, and contextual perspectives. Third, it develops a systematic mechanism mapping that distinguishes primary from secondary pathways. Fourth, it incorporates an explicit evidence quality assessment, classifying findings by confidence level rather than treating all evidence uniformly. Fifth, it offers actionable practical implications for multiple stakeholder groups while explicitly conditioning those implications on the geographic and methodological boundaries of the included evidence.

Based on the identified gaps, seven priority research directions are recommended. First and most critically, future research should address the bondholder perspective directly, using bond market data to analyze yield spreads, credit ratings, and debt covenant structures as more direct measures than the proxies used in the current literature. Second, rigorous causal mechanism testing is needed, employing formal mediation and moderation analyses, including structural equation modeling, to assess the relative importance of alignment, monitoring, and information quality mechanisms. Third, future research should focus on identifying optimal ownership levels through systematic examination of non-linear relationships, using methods such as threshold regression or polynomial models, and incorporating firm characteristics and institutional environments.

Fourth, long-term effects should be investigated through extended panel studies spanning 10 years or more, including dynamic adjustment paths, delayed effects, and survival analysis. Fifth, geographic diversity must be enhanced, with explicit prioritization of evidence from the United States, the United Kingdom, and emerging markets beyond China; cross-country comparative studies that explicitly account for institutional differences are particularly valuable. Sixth, comparative analyses of different employee ownership types (ESOPs, stock options, broad-based plans) are needed, ideally using matched-sample designs to isolate the effects of design features such as participation breadth and vesting requirements. Seventh, future research should address firm heterogeneity by extending the sample beyond large publicly listed firms to include SMEs, unlisted firms, and diverse industry contexts.

From a methodological standpoint, several recommendations emerge: strengthening causal identification through instrumental variables or quasi-experimental designs; improving measurement by incorporating more direct indicators of agency costs and bond market data; extending time horizons through long-panel datasets; enhancing mechanism testing via formal mediation analysis; and increasing sample diversity through multi-country studies and inclusion of underrepresented firm types. Methodologically, this review also recommends that future systematic reviews on this topic adopt multi-database searches (Scopus, Web of Science, EconLit, and SSRN), include backward and forward citation searching from key U.S.-based studies on broad-based ESOPs, and consider relaxing the requirement that all three concept blocks co-occur in title, abstract, or keywords, particularly when reviewing literatures known to use heterogeneous terminology across institutional contexts.

5 Conclusions and Suggestions

This systematic literature review synthesizes evidence from 11 studies (8 in-depth and 3 supplementary) to examine how employee ownership schemes influence agency costs between shareholders and bondholders in publicly traded firms. The findings reveal asymmetric effects between equity and debt agency costs, and an equally asymmetric evidence base. For equity agency costs, the evidence is strong and consistent, indicating that employee ownership significantly reduces agency costs. All eight studies report robust positive effects across different contexts, methodologies, and types of employee ownership. The primary mechanism is interest alignment through employees' financial stake, supported by enhanced monitoring and improved information quality. In contrast, for debt agency costs, the evidence is moderate and context-dependent, with only two studies explicitly examining the relationship. A notable finding is a U-shaped (curvilinear) relationship, where moderate levels of employee ownership reduce the cost of debt, while excessive levels increase bondholder concerns due to wealth concentration risk.

Regarding bondholder–shareholder conflict, the evidence remains highly limited, with only two studies explicitly addressing the bondholder perspective. This review treats this gap not as a defect of the synthesis but as a substantive finding about the field: despite a 25-year search window and a search string that explicitly named bondholders, employee ownership has been overwhelmingly studied from the shareholder–manager axis, with the shareholder–bondholder axis still substantially under-investigated. The impact on capital structure suggests that employee ownership influences the debt–equity ratio through agency cost channels, characterized by a dynamic adjustment process. The identified causal mechanisms include three primary mechanisms—interest alignment, enhanced monitoring, and information quality improvement—and two secondary mechanisms—risk redistribution and non-linear effects.

This review makes three substantive contributions. First, it documents that the established finding that employee ownership reduces agency costs is overwhelmingly an equity-side finding, and treats the asymmetry between equity and debt agency cost evidence as a substantive contribution rather than as background. Second, it makes explicit that the linkage from employee ownership to capital structure in the existing literature runs primarily through agency-cost, information-quality, and risk-redistribution channels rather than through direct examination of leverage choice; only one of the eight in-depth studies addresses capital structure directly. This title–

evidence asymmetry is reported transparently and is itself part of the contribution. Third, the review identifies boundary conditions, curvilinear effects, ownership concentration interactions, institutional moderators, and the disagreement on cost-of-equity effects, that qualify the prevailing alignment narrative and reframe the research question from whether employee ownership reduces agency costs to when, where, and at what level it does so.

From a practical perspective, policymakers should encourage moderate rather than excessive levels of employee ownership, explicitly recognizing curvilinear effects and context dependency. Firms need to ensure optimal calibration when designing employee ownership programs by combining them with complementary governance mechanisms and closely monitoring their effects on stock liquidity and the cost of capital. For shareholders, employee ownership serves as a valuable governance signal, although careful monitoring of ownership concentration is required. For bondholders, moderate employee ownership may be viewed positively; however, excessive levels necessitate closer scrutiny of both risk exposure and the firm's overall governance structure. Crucially, because the evidence base is concentrated in China and France, these implications should not be exported wholesale to U.S., U.K., or other contexts without further empirical validation.

This review has several limitations. First, the search strategy was restricted to a single database and English-language publications, which produced a Chinese- and French-dominated evidence base and excluded studies from the U.S., U.K., and other regions. Second, the strong geographic concentration (China 50%, France 37.5%) raises concerns regarding generalizability. Third, the predominance of observational studies limits causal identification. Fourth, most studies rely on indirect proxies for agency costs. Fifth, the use of a narrative synthesis approach, combined with a relatively small number of studies, introduces subjectivity and constrains the application of quantitative meta-analysis.

Several priority research directions emerge. The most critical is the bondholder perspective, requiring dedicated studies using bond market data, yield spreads, and credit rating analyses. High-priority areas include rigorous testing of causal mechanisms through formal mediation and moderation analyses, as well as the identification of optimal ownership levels through systematic examination of non-linear effects. Additional research is needed on long-term effects, geographic diversification (with particular priority on U.S. evidence), comparative analyses of different employee ownership types, and firm heterogeneity. Methodological advancements—such as strengthening causal inference, improving measurement validity, extending time horizons, and increasing sample diversity—will substantially advance the field.

Overall, employee ownership schemes represent an effective governance mechanism for reducing equity agency costs, supported by strong empirical evidence within the geographic scope of the included studies. However, their impact on debt agency costs remains context-dependent, with curvilinear relationships indicating the importance of optimal calibration. Employee ownership should therefore be viewed as a context-sensitive governance tool rather than a universal solution, requiring careful balancing of multiple objectives, including shareholder value, creditor protection, employee welfare, and market liquidity. While critical gaps, particularly concerning the bondholder perspective, causal mechanisms, optimal ownership levels, long-term effects, and geographic representativeness, limit definitive conclusions in certain areas, the existing evidence provides a robust foundation for informed decision-making, provided that uncertainties and boundary conditions are explicitly acknowledged. Future research addressing these gaps through rigorous methodologies, diverse samples, and multi-stakeholder perspectives will significantly advance both theoretical understanding and practical applications of employee ownership within corporate governance and capital structure contexts.

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