



HARNESSING THE POWER OF EMPLOYEE STOCK OWNERSHIP PLANS

BY NATHAN PERKINS

Traditional benefits and culture initiatives may support a company's short-term success — but they often fail to address the long-term vision and strategic planning needed for the company to grow sustainably.

An employee stock ownership plan (ESOP) bridges this gap by aligning immediate benefits with future company objectives.

An ESOP is a specialized employee benefit plan that allows business owners to sell some or all of their shares to a trust, which then holds the shares in retirement accounts for employees. Essentially, ESOPs turn employees into partial owners of the company, giving them a direct stake in its success.

ESOPs are growing in popularity as a business succession and employee retention strategy. However, in a 2024 study by FMI and CFMA, only two-thirds of

respondents viewed ESOPs as a viable option for ownership transfer. Nevertheless, ESOPs should be part of the conversation among business leaders, as they offer a win-win solution: Owners gain a structured exit strategy, while employees benefit from long-term rewards through ownership.

The trend toward establishing ESOPs is likely to continue, especially as business owners seek exit strategies that preserve their companies' legacies and cultures as well as reward employees. The need to transfer ownership is amplified by an aging workforce: [Baby boomers are departing the workforce at increasing rates.](#)

Here's a breakdown of how ESOPs contribute to various aspects of a company's success:

1. **Boosting employee engagement and retention:** ESOPs impact one of the most critical components of a company's success – employee engagement and how this translates to job retention and satisfaction.
 - **Alignment of interests:** ESOPs align employees' financial interests with the company's performance, making employees more invested in both their roles and the organization's future.
 - **Increased motivation:** Ownership stakes can motivate employees to work harder, as they see a direct correlation between their work and financial rewards. They're more likely to take an interest in the company's growth, knowing they have a direct interest in the company's success.

- **Improved job satisfaction:** Employees with ownership tend to feel more valued and satisfied with their jobs, which can further reduce turnover and boost loyalty. As Chris Rankin, president of CCE Specialties, Inc., noted, "Employees are ecstatic and proud that their service contributions are recognized in a meaningful way."

ESOPs provide employees with the option to sell their shares and exit the company, or stay and help build the company's legacy, all while encouraging them to share ideas on the future growth of the company. This interdependence can strengthen employees' sense of belonging, helping them feel a shared sense of purpose. In other words, employees are more fulfilled.



2. Driving financial performance: The benefits of ESOPs extend far beyond employee engagement. They often lead to substantial improvement in financial performance, driven by a motivated and committed workforce.

- **Improved productivity:** ESOP companies often see increased efficiency as employees work harder to strengthen the company's performance. Research conducted by the National Center for Employee Ownership (NCEO) found that ESOPs increase productivity by 52%.

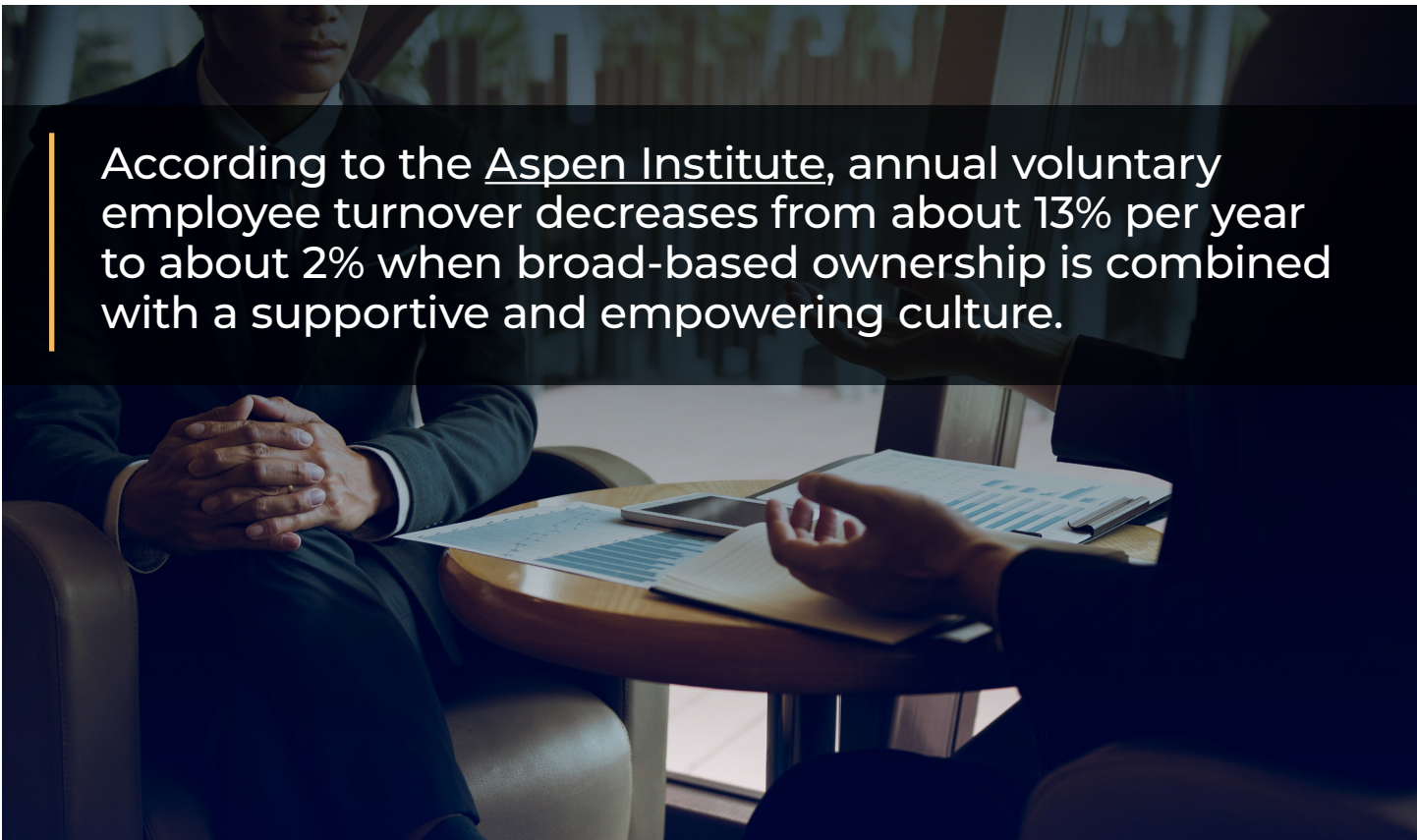
FMI research suggests that contractors lost approximately \$30 billion to \$40 billion to labor inefficiencies in 2022. These labor productivity deficits translate to significant project and enterprise margin erosion industrywide, something ESOPs can help address.

- **Enhanced profitability:** A culture of employee ownership fosters profitability as engaged employees deliver higher-quality work and better customer service, which can improve client trust and lead to repeat business and referrals.

- **Cost savings:** ESOPs can lower labor costs by reducing turnover and the expenses related to recruiting and training new employees.

3. Strengthening company culture: ESOPs can have a profound impact on company culture. When employees feel like owners, their experience of shared purpose and teamwork can elevate the overall work environment.

- **Increased transparency:** Employees often gain more insight into the company's financial health and strategic direction, promoting a more informed and cohesive workforce.



According to the Aspen Institute, annual voluntary employee turnover decreases from about 13% per year to about 2% when broad-based ownership is combined with a supportive and empowering culture.

4. Attracting and retaining top talent: A strong company culture doesn't just benefit current employees — it also plays a critical role in attracting and retaining top talent. ESOPs offer companies a competitive edge in this area, especially in industries where skilled professionals are in high demand.

- **Competitive advantage:** Offering equity participation makes a company more attractive to potential hires, particularly those who value long-term financial incentives.
- **Retention tool:** In industries like engineering and construction, ESOPs can be particularly valuable in retaining employees, as they offer a stake in the company's future.

5. Enhancing financial stability and succession planning: ESOPs can offer long-term benefits in terms of financial stability and succession planning, ensuring a smooth transition in ownership while preserving a company's legacy.

- **Succession planning:** ESOPs are an effective tool for transitioning ownership, especially in family-owned or closely held businesses.

When a company takes this approach, it not only ensures continuity in leadership — it preserves the company's values, relationships and operational expertise. ESOPs can mitigate the risks associated with sudden leadership changes, thereby safeguarding long-term stability and operational effectiveness.

- **Financial security:** ESOPs provide employees with a valuable retirement benefit, contributing to their long-term financial security and fostering deeper loyalty to the company.



IS AN ESOP RIGHT FOR MY BUSINESS?

Know that an initial challenge for companies establishing ESOPs may be educating employees about the plan. But although perceptions can vary among workers early on, the long-term benefits outweigh any early hurdles faced when implementing ESOPs.

Additionally, keep in mind that ESOPs are not exclusive to large enterprises. Small- and medium-sized firms are also leveraging ESOPs to generate employee loyalty, manage succession planning and stand out in competitive markets. That said, not every company is an ideal candidate for an ESOP. Before moving forward, you'll want to reflect on the following questions:

- Does my company have a desire to transition ownership?
- Has my company engaged in succession planning efforts?
- Does my company have access to a strong pipeline of future growth prospects?
- Does my company have earnings of ~\$3 million to \$5 million before interest, taxes, depreciation and amortization (EBITDA) and at least 25 employees?
- Do my company's employees embrace the prospect of broad-based equity ownership?

ESOPs present a transformative opportunity for companies to enhance various facets of their operations, including boosting employee engagement, driving financial performance and supporting long-term growth. For companies considering an ownership transition, now is the time to explore the benefits of ESOPs. Engaging with an experienced advisor can help ensure a seamless and successful transition that benefits both owners and employees alike.



AUTHOR



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