

Employees as shareholders?

Would sharing ownership with all of your employees make your business more successful?

It's a question most owners of medium sized, privately owned businesses consider at various stages along their journey. I'm not convinced it's a sensible path to take.

Aligning interests?

The key argument for a company wide Employee Share Plan (ESP) is that, by sharing ownership, employee interests will be more closely aligned with those of shareholders.

My experience shows the five most common employee interests are:

- Opportunity to learn and grow
- Positive and pleasant work environment
- Recognition and encouragement from management
- Competitive remuneration
- Job satisfaction

Here's an example of 5 possible shareholder interests:

- Consistent dividend payments
- Eventual liquidation of investment for capital gain
- Strategic holding to support other investments
- Inter generational ownership
- Deeply rooted belief in the company's mission or vision.

This shows employees and shareholders wearing their own hats have little alignment. So by granting a small shareholding to each of your employees, should we realistically expect a change in their interests, to any significant degree? My experience would suggest not. Most employees instinctively take a shorter term 'what's in it for me' attitude (which is fine). This contrasts with a typical shareholder approach of "the Company's success will lead to my success".

Stimulate Employee Performance?

A second argument for ESPs is that staff will work harder/smarter. A blip may occur upon the implementation of the plan or upon communicating increased valuations. Otherwise my experience is that employee drivers revert back to type (as above). Sustained and material behavioural change based on the implementation of an ESP is unrealistic.



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Longer Term Employment with the Company?

This is the third argument. ESPs may bring about a longer term focus, but if the employee has lost job satisfaction, isn't learning and they don't respect their manager how long is an employee going to hang on for an eventual pay out? Instead, employers should focus on the five key employee interests above to increase longevity, but not at the expense of performance.

As an aside, employee tenure (length of time they stay with a company) as a yardstick of organisational success has had its time. While not dismissing the numerous benefits of staff retention, it's employee contribution that should be celebrated, not their number of anniversaries.

Other ESP pitfalls

Company wide ESPs can come in a number of shapes and sizes but generally they are expensive to implement – not just the cost of accountants or specialist advisers but also the management time taken to define and implement the programme. Also, do not underestimate the time requirement of administering the plan once it is in place.

A Discerning Solution

- If you choose to share ownership with your employees:
- Give more shares to far fewer people
- Those fewer people should be individuals that truly make a difference
- Ensure those fewer individuals will still be adding huge value in 3-5 years time
- Sell shares rather than giving them away (or do a mixture of both)
- Award equity on achievement, not simply tenure

Despite my reservations above, I am an advocate of equity participation for senior management or select individuals. Such management involvement can also help germinate an MBO, giving another possible exit opportunity for privately owned business owners.

If shared ownership isn't for you then consider setting a Big Hairy Audacious Goal and base rewards for its achievement on \$\$\$\$. Like many things financial, when it comes to employee incentives, cash is king.

