Employee-Owned Companies Experience Improved Morale, Retention

Posted on February 21, 2023 by Joshua Huff

More than 6,000 U.S. companies have turned to employee stock ownership plans (ESOP), with more than 250 new ESOPs created each year, according to the National Center for Employee Ownership. This includes several glass companies.

An ESOP gives workers ownership interest in the company in the form of shares of stock. It's essentially a retirement plan that aligns the interests of employees with those of shareholders. A company can establish a retirement plan trust, much like a 401(k) plan, and contribute or allocate company stock to the plan annually. Shares are allocated based on pay or a similar distribution method.

Jeff Haber, a managing partner at W&W Glass, explains that ever since the New York-based contract glazing company became an ESOP in 2019, it has seen an improvement in recruitment and involvement.

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"It also helps with morale because everybody has a stake in what they're doing," he says. "It has a direct financial benefit on their performance. The results of their work and the work of their coworkers are tangible every year when they get their statement and see their value."

Nataline Lomedico, CEO and president of Giroux Glass Inc., a 100% employee-owned company since 2017, adds that her company has seen lower turnover and many return employees following the move.

Haber's and Lomedico's experiences align with the majority of ESOP CEOs. A 2023 study by Verit Advisors and Greentarget polled 200 company founders and executives across various industries. The founders comprised 90 companies with a full or partial ESOP, 80 companies considering an ESOP and 30 companies not considering one.

Results from the survey indicated that nearly 90% of respondents agree that an ESOP structure delivered better employee incentives and improved the company's financial and operational performance.

"An ESOP is a great opportunity to maintain the company's culture and reward long-standing employees," says Haber. "It also allows the existing ownership team to stay on in a different capacity and transition their role to other team members over a long period of time without a shock to the system."

Haber adds that ESOP is not for everyone. It's basically an exit strategy for original owners. He explains that once a company becomes an ESOP, the owners or founders of the business no longer own the shares. Owners have several forks in the road when it comes to exiting, including selling the company, passing it down to the next generation, and having it acquired by a competitor, among others.

However, Haber says those alternative moves might not align with the seller's original business intention.

"It might not keep the company's original culture," he says. "It might not reward the key employees for their hard work over time. The ESOP is a great opportunity to maintain the company's culture, reward the longstanding employees, and give them a stake in the business."

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Mike Willard, CEO of Salem Fabrication and Technologies Group, says his company has been employee-owned since 2000. He explains that an ESOP allows employees to get back what they put in. He says the process typically involves a third party that values the company and decides the share value for the previous year. That money is then deposited into the employees' accounts based on their salary instead of the whole company's salary.

"We ask our employees to put in the sweat equity daily," he says. "That means working hard to make a difference for the company and the customers. In return, Salem makes a distribution in their ESOP account every year."

Lomedico says ESOP companies retire employees with an average of 35% more retirement savings than non-ESOP companies. That statistic is true at Giroux and is paired with the company's 25% match on 401k contributions.

"We want to ensure that our employees feel financially secure about their retirement and learn the importance of diversifying their investments," she says. "By educating our employees on what it means to be an owner, they can learn how their actions impact our bottom line."

As with most employee incentive plans, there are several disadvantages, such as timing. Depending on the company, an employee must work for a certain time to become eligible. According to Pioneer Cladding and Glazing Systems controller Olivia Baumer, their employees are eligible after a year; however, if they leave the company before retiring, there's a waiting period to access the funds. Baumer adds that payouts begin immediately if an employee remains with the company until retirement.

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