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Benefits of an Employee Share Ownership Plan

Some ideas to build a powerful ESOP – and avoid the Pitfalls.

Regardless of whether your private company has a divestiture or an acquisition on the horizon, consider an ESOP to reward your employees, stimulate their productivity and encourage their retention. Here are some ideas to consider as you organize your employee share ownership plan:

Advantages of an ESOP:

Reward for Employees. There may be no better long term reward for employees than to share in the equity success of the primary owners. With an ESOP in place, a successful business will see both the primary owners and the employee owners receive an equity return that can be a major boost for their eventual retirement.

Productivity is Better. Studies, such as a 1986 study by the Toronto Stock Exchange, comparing ESOP companies with non-ESOP companies showed a significantly higher productivity rate with the ESOP companies.

Financial Performance is Improved. The same TSE study showed the financial performance of ESOP companies was also significantly higher in the ESOP companies than in the non-ESOP companies. There are many success stories of companies who use ESOPs, including PCL and WestJet.

Avoiding the Pitfalls:

Use a Good Advisor. Use an experienced advisor who is familiar with management issues, valuation metrics, managing the setup of a unanimous shareholders agreement (USA) and overseeing the whole process, including presentations to employees.

How to Keep it Simple? The overall ESOP can be kept simple only if each of the components of the process is kept simple. As an example, a powerful and effective USA should be able to be contained to within ten pages.

How to Avoid Disputes with Employees? One of the keys to avoiding frustrating disputes with employees is to have a strong USA which clearly communicates to employees how all of the likely future events are to be handled.

What is the right Pricing Formula to use? There is no simple answer here. A price that is too high might actually create an incentive for employees to quit and take their equity wins. A price that is set too low might never see founding or retiring shareholders getting a fair return. Again, consider using an experienced advisor to evaluate a variety of strategic options.

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Brian Hamilton is the CEO of Corplan Advisors Inc, a Western Canada based firm dedicated to helping Owners and CEOs of mid-size companies cross the finish line smiling with their Divestitures, Acquisitions and Strategic Plans.