

Imagine a Future with more ESOPs

Image



Spring, 2018 events show uptick in activity around employee ownership

The story of how employee ownership saved a [B.C. mill company](#) from shut down offers just one compelling glimpse of what's possible in a business model some say is still too much of a secret.

This past spring saw an uptick in activity around the employee ownership structure in both the U.S. and Canada.

In Canada, the fourth annual Employee Ownership Conference took place in Edmonton, Alberta June 4-6, drawing its largest number of attendees to date. The energy in the room and conference halls was “vibrant, exciting, fluid,” says Dan Ohler, an employee ownership specialist with ESOP Builders Inc., and director with the ESOP Association of Canada.

The conference was held to promote employee ownership to business owners and anyone exploring a business transition for growth, attraction and retention or other reasons. Speakers shared best practices around both the technical and cultural aspects of the Employee Stock Ownership Plan (ESOP) model.

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In the U.S., which has an older and broader ESOP background compared to Canada, the Aspen Institute held a panel discussion May 10 on employee ownership. Individuals and groups involved in policy making and thought leadership attended. Professor Joseph Blasi of the Rutgers School of Management and Labor Relations noted there are more pro-ESOP bills in Congress today than ever before.

Topics discussed at the Aspen event included: Employee involvement, ESOPs and culture, as well as what a future with more ESOPs might look like and mean for society.

ESOPs within the Larger Economic Story

“I believe employee ownership is an extremely needed and powerful business model,” Ohler tells Axiom News.

“Along with the B-corp and the co-op models, it puts people back into business. It is corporate business with a social conscience. It promotes and encourages engagement, involvement, investment, future thinking, and financial literacy to employees, and has them become more accountable to themselves, to their employer, and to their community.”

While there are several differences between the way ESOPs are able to configure themselves in Canada and the U.S., they have the following in common: ESOPs provide a structure for transitioning ownership from founders of business to employees and in so doing offer employees a way to invest in their personal futures through the business in which they work.

ESOPs offer an alternative investment opportunity that is “intimate” and local; one is a part of and knows the group responsible for the success of the business in which one is investing. In this way, a person can directly influence, through one’s own performance, the success of the ESOP.

“From a broader social perspective ESOPs provide some response to the necessary re-orientation of our financial system and the problem of absentee ownerships and shareholding,” writes Axiom News founder Peter Pula. “ESOPs could help us root capital and social productivity in our own workplaces. Rootedness is currently greatly required.”

Stories of Companies Turned Employee Owned

Over the years, Axiom News has covered the employee-ownership journeys of scores of companies. Most have been in the U.S. for the simple reason that there are just that many more there; but we’ve also highlighted a number of Canadian companies. Below we summarize just a handful of these stories.

Image



The POS Bio-Sciences team.

Company: POS Bio-Sciences, Saskatchewan

Impetus: POS Bio-Sciences needed a new owner and knew of Saskatchewan's Labour-Sponsored Venture Capital Corporations Act (LSVCC), which allows employees to buy into their employer and in so doing receive a tax credit. CEO and president Dale Kelly had also recently been inspired by the success of another Saskatchewan-based, employee-owned company, West Wind Aviation.

Structure: Today, POS Bio-Sciences is owned by directors, employees, friends and family. Employees own about 40 per cent of the shares. The LSVCC is a company to itself, POS Team Equity Corp., which then buys shares in POS Bio-Sciences. A key stipulation under the legislation is that investors in POS Team Equity Corp. cannot buy shares in any other company. Financial statements are shared openly with those who own shares.

Results: One almost immediate change after POS became employee owned was increased employee engagement. "The rigour around decision making has changed in that, regardless of whether we're buying a new piece of equipment or a hall light is left on, everybody in the building will be asking, 'Well, do we really want to do that? Is that something we really need to do today?' They're looking for reasons," Kelly said in an earlier Axiom News interview.

Company: Friesens Corporation, Manitoba

Impetus: More than 40 years ago, Friesens, a book manufacturing and packaging company, first introduced a model to share profits with employees. A family-held company at the time, Friesens Corporation was seeking to align the goals and objectives of the owners with that of staff members. The belief was that owners engaged at every level of the firm would strengthen the company. The intent was to also share wealth creation.

Structure: In the beginning, staff members who wanted to become employee owners had to buy shares from current shareholders — the company's original owners at first — at an agreed-upon price. Over time, staff members could buy from each other or from a small trust that was established to assist in the transfer of shares. It was in this context, that the entrepreneurial spirit seems to have been most alive as the link between one's payment for shares and the company's well-being was very clear-cut.

Five years ago, the company agreed to form an employee-ownership model that closely resembles that of the U.S. ESOP — a trust that holds all of the shares on behalf of the employees, who are the beneficiaries.

Results: The key benefits of the new framework include reducing risk for the individual staff member while distributing profits more evenly to a larger percentage of staff members.

Because the new framework works more like an indirect ownership model, according to president and CEO Curwin Friesen, there must be more intentionality around encouraging employee owners to “think like owners.”

As a company of about 425 employees today, Friesens has experienced significant growth over the last 40 years. That success is linked in large part to the company's employee-ownership model.

Company: Norpac Controls Ltd., B.C.

Impetus: Staff members at Norpac Controls Ltd. have always had an entrepreneurial spirit so it made perfect sense to president Dave Wall that an employee share ownership plan (ESOP) would only further enhance one of the company's top strengths. In 1997 while undergoing a restructuring phase, the B.C.-based industrial distributor of process control solutions and engineering services

implemented an ESOP in an effort to further strengthen the connection between employees and the company.

Structure: Employees have to be with Norpac for three years before being able to participate in the ESOP. At that point, staff members are offered shares proportionate to their role in the company.

Results: The ESOP is a tool that has helped the company during economic prosperity and downturn. When times are good, employees share the successes and when times are bad, it is easier to justify cutting back, according to an earlier interview with Wall.

Having an ESOP has also increased the need for more communication, transparency and participation.

While it can be difficult to incorporate everyone in the decision-making process, according to Wall, staff members are given an opportunity to participate through the company's strategic planning process and their individual goal setting. Staff members are interested in the future direction of the company and allowing them to participate helps reinforce ownership.

What's next?

"I am continually amazed at how the ESOP model is (still) a secret in our economy," says Ohler. He and others continue to build awareness, and provide education and support to help business owners understand employee ownership and ESOPs. The annual Canadian Employee Ownership Conference provides just one way to do that; the next one is scheduled for June 3-5, 2019 in Toronto.

At the panel discussion hosted by the Aspen Institute, US Representative for Minnesota's Third Congressional District Erik Paulsen noted there are about 14 million people who benefit from an ESOP plan in the U.S. However, "there absolutely can be and there should be more," he said, as [reported by the ESOP Association](#).

With files from Peter Pula, Camille Jensen

Axiom News is interested in stories of employee ownership transitions. To share your story, please contact the newsroom by [e-mailing us](#).

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