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Employee Ownership. The key to talent retention?

Imagine a workplace where every employee feels like they have a stake in the company's success. Where more people in your business are motivated to work harder, smarter, and better because they know that their own success is directly tied to the success of the business. This is the promise of employee ownership, a concept that has been gaining traction in growth businesses around the world.

It is one of the models that ensures that the tech giants use to lock in employee retention, despite the fierce competition for that talent globally, and it has been quickly mimicked by rising tech stars, such as Spotify, Atlassian and ZenDesk. But employee ownership is not just for technology companies. Here's why.

Employee ownership is the practice of giving employees a stake in the company, typically in the form of shares or equity.

This can take many forms, from stock options and profit-sharing plans to full-blown employee stock ownership or options plans (ESOPs) and cooperative ownership structures. The goal is always the same: to align the interests of employees with those of the company, creating a more motivated and engaged workforce that is better able to contribute to the business's success. When your employees have a material vested interest in the company's long term success, they are more likely to stay, more likely to provide discretionary effort, and more likely to care about long-term sustainable effects of day to day decisions.

Start-ups have been deploying employee ownership models for some time, recognizing the value of creating a shared ownership culture from the ground up, but also in lieu of being able to provide cash benefits. It often starts out as "sweat equity" – the idea that in return for effort, you get a piece of the future company that you're building. However, the average small business typically has more tightly controlled ownership structures from the get-go, with the majority of shares held by a small number of investors or founders, and often a single owner or family. This can be because the capital investment by the owner in getting the business off the ground has been considerable, and needs to be reflected in the ownership structure. But it's also often because employee ownership isn't something the owner has considered. One solution to this challenge is the use of shadow ownership models, which give employees the experience of ownership without actually transferring legal ownership of shares in the business. This can include profit-sharing plans or phantom stock options, which provide employees with a share of the company's profits or value without diluting the ownership of the existing shareholders. This can be a useful way of introducing the concept of employee ownership to a small business without the same legal and tax implications of a full share plan.

Of course, there are legal and tax implications to consider when implementing any employee ownership model. In Australia, the tax implications of employee ownership can be complex, particularly when it comes to the treatment of shares and options. It is important to seek professional advice before implementing an employee ownership model to ensure that the structure is compliant with local regulations and tax laws.
There is also the question of fairness.

Is equity open to everyone? Will future issues be diluted? Do employees have to buy in, or will their equity be issued in return for past or future contributions to the business? And when the ownership model has been fully implemented, does it feel fair to employees overall? It can be difficult to get all of these aspects right.

Although it takes some thinking through, the potential benefit of employee ownership structures the unparalleled incentivization and retention of talent in a market where talent is scarce. For small growth businesses, attracting and retaining talented employees can be a major challenge, particularly when competing against larger organisations who not only have deeper pockets, but also more to invest in development. Employee ownership can provide a way of offering equity as a form of compensation, without the need for cash bonuses or other incentives.

However, the benefits of employee ownership go beyond mere financial incentives. At its core, employee ownership is about creating a culture of shared ownership and responsibility, where everyone is invested in the company's success. This can lead to a more engaged and motivated workforce, as employees feel a sense of ownership over their work and the business as a whole.

For current owners, employee ownership can also provide a way of transitioning ownership and management of the business over time. By introducing employee ownership structures, owners can gradually reduce their ownership stake while retaining control over the business's direction and strategy. This can provide a more stable and sustainable transition plan than simply selling the business outright.

One sector where employee ownership has been particularly successful is in professional services businesses. These businesses are typically structured as partnerships, with equity ownership tied to seniority and performance. This can create a strong culture of ownership and accountability, as partners feel a sense of responsibility for the success of the business. However, this structure can also create challenges when it comes to corporate governance and operational synergies, particularly as the business grows and expands.

Employee ownership is a valuable strategy for small growth businesses to enhance talent retention and engagement. While implementing employee ownership models may involve fairness, legal and tax complexities, the benefits can be substantial. Offering equity or shadow equity as a form of compensation can create a powerful shared ownership culture addressing the core of talent attraction and retention issues in today's workforce. Additionally, employee ownership can facilitate a gradual transition of business ownership and management to successors who come from within employee ranks. With careful planning and professional advice, employee ownership can create a win-win situation for both the existing owners, the business as a sustainable entity, and its talented employees.

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Kisrtin is a trusted partner to SME and fast-growth CEOs and Boards across Australia. Offering decades of experience within SME, venture businesses and corporates, she now chooses to work with businesses and enterprises that have a strong mission and purpose at their core.

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