EQUITY

Why Employee Ownership is Good for Business

COREY ROSEN, JOHN CASE and MARTIN STAUBUS

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MAIN IDEA

Despite the fact thousands of companies are now wholly or partly owned by their employees, many companies are still failing to pick up on the competitive advantages offered by employee ownership – faster growth, higher profitability and better resilience in times of economic downturn. A solid business case can now be made for the practice of making employees true partners in a firm’s success by giving them a significant equity stake in the business enterprise.

Building a successful equity company, however, isn’t just a case of letting employees buy stock and then living happily ever after. To realize the true benefits of this concept, employees have to see themselves as owners and create a different kind of workplace which aligns with that perspective. That means the culture of the organization must change and evolve as well. Furthermore, employees have to learn how to run the business differently if their ownership is to have any practical impact. Unless all three of these elements are present, employee ownership just won’t deliver any tangible benefits.

More than just another option in the human resource department’s kit bag of benefits, employee ownership has the potential to comprehensively transform ordinary companies. When employee ownership is combined with participatory management, businesses often move into and stay in high-growth mode. Employee ownership turns up in a very large number of influential and successful companies. Perhaps this isn’t just a coincidence.

Background – Employee ownership as a “performance additive”

Employee ownership is something of a business phenomena – despite the fact it is widespread and well received in almost every industry, many businesspeople still regard it as an oddity. What is indisputable, however, is the fact a disproportionate number of highly successful companies use an employee ownership equity model as the foundation for their entire businesses. That should make everyone pause and analyze the concept of employee ownership in more detail. In many ways, letting your employees earn an equity stake in your business can be the ultimate performance additive.

Essential #1 – Size – There must be enough equity that it impacts on the employee’s financial situation

It really doesn’t matter what percentage of the company’s stock an individual employee owns. What is important is the employee feels like they own a significant asset. Until they feel like their stock ownership is of importance to their personal financial security, employees won’t really think like owners. As soon as that threshold is passed, however, employees will start taking their ownership of the company’s stock seriously. They will start doing what all business owners do – find creative ways to grow the value of the business enterprise and generate wealth.

Essential #2 – Culture – The organization’s culture must help employees think and feel like owners

Making employees shareholders in the business enterprise is a good starting point but it isn’t enough in and of itself. To really make employee ownership work, you also have a to create a different kind of workplace. You have to create a culture centered around ownership of the business by sending the message to your people this isn’t an ordinary place to do business. You have to build a culture which brings the employee ownership concept to life and makes it real.

Essential #3 – Understanding – There must be a shared understanding of business disciplines

In and of themselves, equity ownership and an ownership-oriented culture are a good foundation for transforming a workplace but they only go so far. A way has to be provided by which the enthusiasm for change is supported and built upon. In short, people have to know how to actually run the business differently in the future. That understanding is only feasible if first everyone understands the fundamental disciplines that drive the business and then secondly employee involvement is integrated into the day-to-day management of those elements. Employee ownership moves from the theoretical to the actual when employees take joint responsibility for their part of the business.

Application – How to move to an employee equity business model

Moving to the equity model isn’t just a matter of giving employees some stock. To treat employee shareholders as true partners in an enterprise and to operate the business in a way which correctly reflects that dynamic is a challenge. It requires changing the culture and managerial style of the organization and making a concerted effort to educate everyone and then incorporate their combined best efforts into growing the business. Reaching that point is not the work of an idle moment but will require an implementation plan. Fortunately, the corresponding boost in company performance will make this all worthwhile.
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