

The background of the entire page features light blue silhouettes of business professionals in various poses, some walking and some standing, creating a sense of movement and industry. A prominent blue rectangular box is positioned in the upper right quadrant, containing white text. Below this box, the title 'ESOPs as an Attraction & Retention Tool' is displayed in large, bold, blue font. Underneath the title, the subtitle 'ESOPs in Canada' is written in a smaller blue font. To the right of the subtitle is the logo for 'ESOP BUILDERS', which consists of a stylized flower-like icon with orange and blue petals, followed by the text 'ESOP BUILDERS' in bold and 'It's your legacy.' in a smaller font. At the bottom of the page, the author's name 'Joanna Phillips, CHRL, CVB, ESOP Builders Inc.' is listed in a small black font, with a thick orange horizontal bar positioned directly below it.

A significant goal of owners is to attract and retain valuable employees, and many owners turn to an ESOP to achieve this. This study aims to gather data on ESOPs from private companies in Canada and their role to attract and retain top talent.

ESOPs as an Attraction & Retention Tool

ESOPs in Canada



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EXECUTIVE SUMMARY:

ESOPs in Canada are generally not well understood partly because there is limited research and information available. We stress that data in this report is not readily available in Canada as it is in the US and while the measurable responses were not large, we believe the results, and the trends they may reveal, are indeed useful to private Canadian companies and their owners.

It is clear that private Canadian companies are utilizing ESOPs as a strategy to attract and retain top talent. The data does suggest that there is a strong relationship between ESOPs and attraction and at least an indirect relationship with retention.

Results show that ESOP companies tend to grow at a great rate than the national economy. Growing a company requires new talent and with this growth in jobs. Attraction and retention of the right people continues to be a significant business priority and challenge.

Finding the right people can be additionally challenging due to the multigenerational landscape of today's workforce. Each group has very different needs and goals which they look for in the place that they work. Millennials are looking for more out of their job in addition to security and a competitive wage in order for them to commit long term. Gen X continues to value stability and positive results from hard work. Organizations may find it challenging to continue to motivate those in the Baby Boomer generation because they are so focused on the next stage of their life. ESOPs may be the answer to achieve the different needs of employees in order to attract and retain them.

ESOPs can be used as a means to attract top talent and increase retention of current talent. An ESOP is not a one stop shop to fix major organizational challenges, however when implemented and communicated properly, and aligned with other programs to improve attraction and retention, it can have very positive results.

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ESOPS AS AN ATTRACTION & RETENTION TOOL SURVEY REPORT

TOPIC:

Employee Share Ownership Plans (ESOPs) in Canada and their use as an attraction and retention tool.

OBJECTIVE:

ESOPs in Canada are generally not well understood partly because there is limited research and information available. A significant goal of owners is to attract and retain valuable employees, and many owners turn to an ESOP to achieve this. This study aims to gather data on ESOPs from private companies in Canada. Specifically, it aims to explore how these companies are currently using an ESOP to attract and retain valuable employees, what challenges are faced in implementing it successfully, and in maintaining the programs relevance and success long term. This report aims to inform business owners if an ESOP can in fact achieve the goal of attraction and retention successfully.

BACKGROUND:

Canada's neighbour in the south, the United States, tends to have much more information and broad awareness of ESOPs and their benefits. The most recent studies by Rutgers (2013 and 2019) indicate that ESOPs appear to increase sales, employment, and sales per employee per year over what could be expected absent of an ESOP. There is also indication that ESOP companies are in business longer, have more retirement-oriented benefit plans, have more wealthy employees, and are six times less likely to lay off employees.¹ Further, a Rutgers 2012 study shows a significant correlation for ESOPs to increase retention. Overall, studies in the US since the '80s have consistently found similar results of correlations between ESOP companies and significantly positive employee and organizational experiences (productivity, profits, culture, attraction, retention, and employee pensions) compared to non-ESOP companies. With such consistent findings, there is more certainty that ownership and participative management culture result in tremendous gains for the company and employees.²

¹ <https://www.nceo.org/articles/esops-improve-performance-employee-benefits>

² <https://www.nceo.org/articles/research-employee-ownership-corporate-performance>

RESEARCH PLAN:

This research was conducted via a survey of 505 private Canadian companies in many different industries including from these categories (Consumer Packaged Goods, Food & Beverage, Construction, Manufacturing, and Technology) and provinces (BC, AB, SK, and ON). It consists of anecdotal and empirical data. The survey was provided to individuals of ESOP companies who had expressed an interest in keeping up to date about the plans in Canada. Amendments were made to take into account multiple responses from the same company, participants who did not yet have an active ESOP, and blank responses. As a result, thirteen unique responses were recorded.

Participants were asked 23 questions in two parts.

Part 1: company data (launch of ESOP, number of employees and turnover number pre and post-ESOP, demographics, etc.).

Part 2: attraction and retention information were gathered including how responding companies are communicating and designing their ESOP into recruitment and onboarding strategies.

Background of Participating Companies

Participating respondents are from private Canadian small- and medium-sized enterprises (SMEs), which range in number of employees from six to four-hundred and forty.

To improve understanding of how long an organization had an ESOP implemented, respondents were asked the year of implementation. Responses ranged from 1984 (2) to 2018 (specific years mentioned were 1984, 2000, 2007, 2012, 2013, 2015, 2017, and 2018). It was determined that the two 1984 ESOPs were outliers and were not factored into the results in Part 1.

Only 1 respondent is a unionized company, the others are non-unionized. Most ESOPs (85%) are equity plans (9% out of these responses indicated plans have a mixed equity and stock option combo), 8% are EVOPs

(Employee Value Ownership Plan or Phantom Plan), and 8% are Stock Option Plans.

Company Metrics

Most respondents (82%) experienced growth in the number of employees. Of these, 22% experienced over 100% growth. Responses also included experiencing a decrease in number of employees (9%) and no growth at all (9%).

To improve understanding of the effects on retention respondents were asked for their estimated turnover pre- and post- ESOP. About 45% of respondents experienced a 1-10% decrease in turnover compared to 36% indicating there has been no change in turnover since ESOP implementation (1 of these respondents specifically commented that the ESOP had no impact on retention).

ESOP Company Demographics

Demographically, the survey asked owners to comment, in their opinion, on how different generations perceive ESOPs as an important part of their employment. Answers were multiple choice and included “Not at all Important, Not so Important, Somewhat Important, Very Important, and Extremely Important”.

On average, Generation X (Gen X - ages 38-53) comprise 44% of the respondents' workforce and are mostly seen to view ESOPs as Very Important (46% compared to 8% for Extremely Important, and 38% for Somewhat Important).

The Millennial Generation (Millennials – ages 22-37) make up on average 41% of respondents' workforce. 54% of Millennials are believed to view ESOPs as Somewhat Important and 23% as Very Important. 15% of respondents believe that Millennials view ESOPs as Not so Important compared to 0% for Gen X and Baby Boomers.

Baby Boomers comprise only 15% of respondents' workforce on average. This oldest generation (ages 54+) are believed to view ESOPs as Very Important by 54% of respondents, 31% as Extremely Important (compared

to 8% and 0% for Gen X and Millennials respectively), and 8% Somewhat Important.

Company Practices Concerning Attraction and Retention

Most respondents (92%) selected “Yes” when asked if they use the ESOP as a strategy to attract and retain employees.

Respondents were asked to choose from a pre-defined list of methods.

Most respondents indicated the most frequently used methods for communication of the ESOP were during the recruitment and orientation process (in order of majority selection: job posting, offer of employment, first day of employment, during face-to-face interview, and in the job description). Communication of a Company’s ESOP also takes place during orientation or training and during informal or formal evaluation processes (such as: probation, performance development plans, incentive/bonus evaluations).

Communication is disseminated on average in a top-down fashion with 83% coming from upper management/executives, 50% from managers/supervisors, and 42% from peers. Communication from Human Resources was also selected by 83% of respondents. Furthermore, 42% of respondents selected each level.

Tools used to communicate ESOP information are on average verbal (79%; such as face to face meetings), written (71%), visual (43%; such as info graphics), employee handbooks (36%), hands-on learning (21%), internal trainers (21%), lectures (14%), and training guides (7%). Options such as external trainers, manuals, and videos were not selected.

As a competitive advantage 75% of respondents selected “Yes” when asked if the ESOP does offer an edge on the competition to attract and retain top talent. Of the remainder, one respondent stated that ESOPs are not unusual in their industry.

Challenges to a Successful ESOP

For those who chose to respond to this open-ended question, the greatest challenge companies face when attempting to implement and ESOP

successfully is understanding. This includes education on ESOPs and how to quantify the benefits to the employee and the company, understanding that the ESOP is an investment with real risk *and* reward, and promoting and celebrating the ESOP. Other challenges mentioned were the financial burden on the employee and allocation of ownership that is meaningful for the individual.

Retention Methods used in Addition to the ESOP

Respondents provided open-ended responses regarding programs in place which also work to attract and retain employees in addition to the ESOP.

These include, in no particular order, remuneration (competitive wages, bonus, profit-sharing, ESOP and RRSP matching), benefits (superior health and dental packages, career progression, increased autonomy in responsibilities, and training), and unique cultural features (nominations for awards, flexible work to promote work-life balance, group trip incentives, beer taps, and good work atmospheres and environments).

CONCLUSION:

While the measurable responses were not large, we stress that data such as this is not readily available in Canada as it is in the US, and believe the results, and the trends they may reveal, are indeed useful to private Canadian companies and their owners.

It is clear that private Canadian companies are utilizing ESOPs as a strategy to attract and retain top talent. The data does suggest that there is a strong relationship between ESOPs and attraction and at least an indirect relationship with retention. Further research is needed to suggest a more direct relationship between ESOPs and retention.

The following comparison assumes an average private Canadian organization can be reasonably compared to job growth across Canada. Compared to the Canadian unemployment rate, growth experience by survey participants was extremely positive. The unemployment rates in Canada generally increase or decrease by about only 0.3% year over year³ whereas ESOP companies (implemented since 2000) surveyed experience growth rates of over 2.6% per annum. Results show that ESOP companies tend to grow at a great rate than the national economy. Growing a company requires new talent and with this growth in jobs, attraction and retention of the right people continues to be a significant business priority and challenge.

It is interesting to note that 1 respondent experienced an 8% increase in turnover. This may be due to many factors such as an over 200% increase in employees since 2000 when the ESOP was implemented. If the company did not adapt to this rapid growth through effective communication strategies, there could be a negative impact on retention. This respondent also listed the main challenge as financial (younger people have a harder time committing financially). There are, however, 8 different ways a company can make purchasing financially achievable for anyone.

³ <https://www.statista.com/statistics/578362/unemployment-rate-canada/>

Independent research has clearly indicated that Gen X make up the majority of the workforce. Millennials are quickly catching up to their Gen X counterparts, and could surpass them in number by 2025⁴.

The generational differences from this survey are subjective perceptions from each respondent. Perhaps Millennials are viewed to value ESOPs only somewhat because of their stage in life and financial pressures. Comparatively, Gen X have more wealth generally and may be viewed to be in a better position to understand and participate in an ESOP. However, recent scientific research indicates that these challenges to Millennials may not exist in reality. Reports from both the National Centre for Employee Ownership (NCEO - US) and John Zogby Strategies for the Employee-Owned S Corporations of America (ESCA) show that Millennials are more financially prepared for retirement⁵ and have 92% higher median household wealth⁶ compared to counterparts in non-ESOP Companies. Millennials are looking for more out of their job other than security and a competitive wage in order for them to commit long term. ESOPs may be the answer to attract and retain employees in this generation.

Due to Baby Boomers' current stage in life, respondents' views indicate it is important for these employees. Most Baby Boomers are believed to view an ESOP as Very or Extremely Important, and due to the closeness to retirement more Baby Boomers could be realizing this as an excellent way to increase wealth for their next stage in life.

The data seems to point to a gap in continuing to communicate the ESOP through the duration of employee experience, and successfully create retention through an understanding of the alignment between the plan, the employee's development and incentives, and company results. A

⁴ <https://www.inc.com/peter-economy/the-millennial-workplace-of-future-is-almost-here-these-3-things-are-about-to-change-big-time.html>

⁵ <https://www.nceo.org/article/new-survey-gen-zmillennials-esops-more-confident-about-retirement>

⁶ https://www.ownershipconomy.org/wp-content/uploads/2017/05/employee_ownership_and_economic_wellbeing_2017.pdf

participative and ownership culture requires communication, understanding, and transparency from all levels, therefore a two-way communication environment would facilitate a successful ESOP and in turn enhance talent retention.

Information from respondents indicates some best practices for owners regarding attraction and retention. Information from this survey suggests ESOPs can be used as a means to attract top talent and increase retention of current talent. An ESOP is not a one stop shop to fix major organizational challenges, however when implemented and communicated properly, and aligned with other programs to improve retention, it can have very positive results.

FURTHER RESEARCH:

While the research was meant to determine if ESOPs do in fact achieve business owners' goals of attraction and retention, the questions were more heavily geared to the attraction side rather than what companies are doing to leverage their ESOP to retain top talent. Further data is needed to obtain a clearer picture of the relationship of ESOPs and retention.

Other sources

<https://www.mentalfloss.com/article/533632/new-guidelines-redefine-birth-years-millennials-gen-x-and-post-millennials>

Appendix 1

ESOP Builders Inc.

ESOP Builders Inc. is the Number 1 provider of ESOPs for small and medium sized businesses in Canada.

As ESOP consultants, we're pleased to be in the business of empowering Canadian business owners and engaging their employees. We know that ESOPs have a positive impact on not only the economy, but society too. We have a passion for our work and that's why we're the best in the country at what we do. Learn more about Our Process [here](#).

Our Services also include ValueBuilder™ which is a comprehensive and step based system designed to assist business owners of small to medium sized enterprises in growing the value of their business.

The ValueBuilder Score helps business owners determine gaps in the driving areas that can help increase their company's value.

[Discover your score!](#)

Whether you are planning your exit or have a desire to facilitate growth, the ValueBuilder System may be right for you.

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