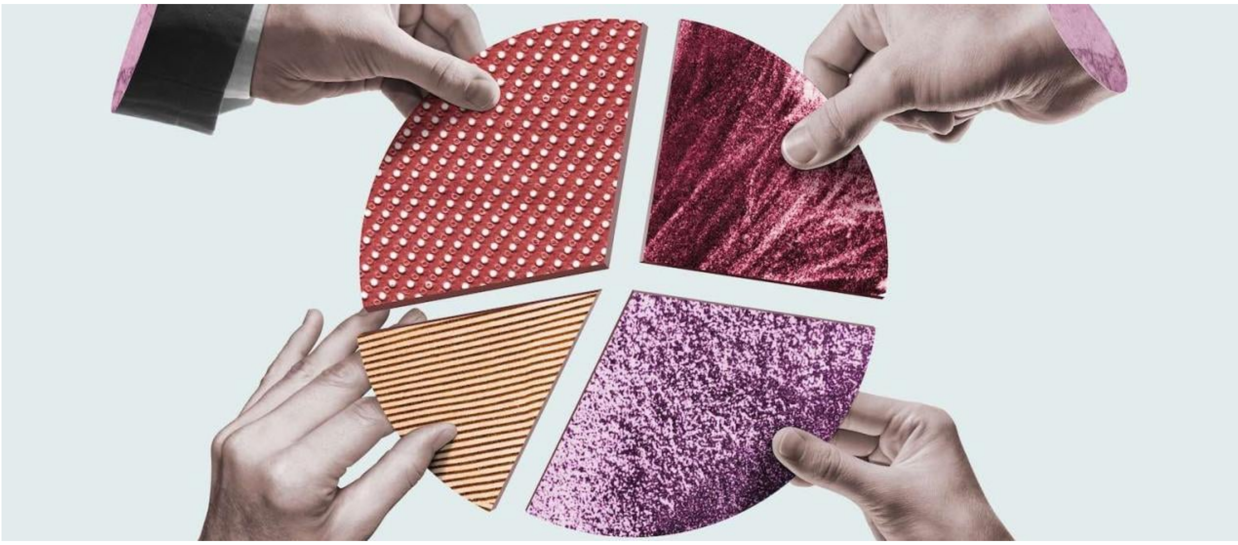
When Shareholders Share, the Business Benefits



By Claudia Zeisberger, INSEAD

Offering company ownership to every employee can help reduce inequality.

Global inequality remains stark. The pandemic, the sorry state of gender and racial equity, and a widening wealth gap have created what the International Monetary Fund (IMF) called a "**lopsided world**" in its **World Inequality Report 2022**. According to the report, the world's richest 10 percent make 52 percent of global income and own 76 percent of global wealth, whereas the poorer half account for only 8.5 percent of income and 2 percent of wealth.

Meanwhile the **Credit Suisse Global Wealth Report 2022** shows that the number of individuals with a net worth of over US$50 million more than doubled at the height of the pandemic in 2021 — the biggest increase in over a century. And the number is rising. Over the next five years, the report forecasts that global millionaires will increase by 40 percent to more than 87 million by 2026, of whom 27.6 million will be in the United States and 12.2 million in China.

Such gross inequality begs a multitude of political and economic questions. To businesses, though, the question is more straightforward: What can companies do to help their employees, especially lower-salaried ones? Here’s a powerful yet simple idea: Let all workers, not just senior executives, own stock in the companies where they work.

A revolutionary model for responsible business

The concept, known as "**shared ownership” or “broad-based employee ownership**”, was pioneered by Pete Stavros, co-head of global private equity at investment firm **KKR** and founder of the nonprofit **Ownership Works**. As Stavros sees it, all workers, not just C-suite executives and top management, deserve a share of the value they create.

Ownership Works argues that shared ownership creates four **benefits**: wealth creation and increased financial resilience for low- to moderate-income households; meaningful progress towards **racial equity in the workplace**; enhanced financial inclusion; and invigorated employee engagement that drives retention and overall company performance.

A good example of the concept put into practice is US-based garage-door maker **C.H.I. Overhead Doors**. After KKR bought the company in 2015, every one of the manufacturer’s mainly hourly rated workers were awarded shares in the company. Seven years later, when KKR sold the company for US$3 billion, each employee **received an average of US$175,000**, with payouts to the longest-serving workers reaching almost US$800,000.

To date, KKR has awarded **billions in equity value** to over 50,000 non-management employees and implemented broad-based ownership across 30 companies, spanning all of KKR’s industry verticals, ranging from industrial manufacturing, media and consumer goods to asset management, professional services and technology. Ownership Works aims to create at least US$20 billion of wealth for low-to-moderate income households by 2030.

Why should CEOs and senior executives capture all the upside?

Shared ownership is by no means a novel idea. Management compensation plans that set aside up to 20 percent of equity for C-suite executives and senior leaders are a standard feature in the private equity playbook, designed to align the goals of senior management and PE investors as well as ensure higher levels of commitment and performance.

Under such plans, senior executives invest their own money alongside that of the PE investors. Upon the PE firm’s exit, executives can earn several multiples of their investment if the firm is successful, or lose their investment altogether if they don’t perform.

Research by **McKinsey finds** that “generous financial and specific incentives are one of the most effective tools for executives to motivate employees”, especially during transformations. If shared ownership drives performance with senior leaders, why would rank-and-file workers be any different? In other words, why should CEOs and senior executives capture all the upside?

As Stavros says: "It's just not right for a leadership team to drive a company super hard for five years and at the end of it, out of thousands of people, a handful of people generate real wealth. So we start from a place of, this is the right thing to do. And by the way, it also happens to be smart business."

As I see it, broad-based employee ownership is a form of social justice that aligns with the “S” in ESG (environmental, social and governance), which has **become mainstream** in business. It is also a form of equity ownership that can **bolster companies’ drive** to integrate diversity, equity and inclusion (DEI) into strategies.

“Social justice, from the perspective of an endowment investor, is the recognition that lack of access to capital is the primary source of social problems and stigmas,” shared **Roy Swan**, Director of Mission Investments at the Ford Foundation when I asked him for his perspective. “Broad-based employee ownership is a type of stakeholder capitalism that not only allows employees to share in the upside benefits of capital, it also incentivises innovation breakthroughs.”

Three keys to successful shared ownership

Being owners changes how employees see themselves — and how management sees them. Workers are empowered with a voice; they feel more proud. In return, leaders are more accountable and transparent.

Sceptics frequently ask if employees leave after receiving payouts. Although it is still early days, the data indicates the opposite — employees are *more* committed. For example, at **Ingersoll Rand**, where 16,000 employees own equity equivalent to roughly 20 percent of their annual salaries, the number of staff who reported being happy at work has surged from 20 percent to 90 percent, while attrition has dropped from 19 percent to 3 percent — far better than industry norms. In fact, CEO Vincente Reynal estimates that shared ownership has created US$2.5 billion in value, increased the company's EBITDA margin by 700 basis points and almost tripled its stock price.

David Bangert, CEO of C.H.I. Overhead Doors, is so confident that employee ownership drives employee engagement and performance that he even recommends offering some of the payout upfront.

I believe that the case for shared employee equity is so strong that it should become part of the standard playbook for ownership transitions, i.e., any time a company is acquired, changes owners, or, in the case of family businesses, is handed to the next generation. We expect managers to negotiate new equity stakes during these times of change. Imagine if workers could do so, too.

But first, employee ownership plans require three keys to be effective:

- **Exceptional management:** Leaders need to believe in employee ownership wholeheartedly. Sharing equity demands changes in mindset and behaviour on the part of managers. As **Stavros said in an interview** with the *Financial Times*: "To be clear, it's not just about sharing ownership — changing the culture is much harder than that. You have to treat employees like owners. Set goals and talk about progress often. Share information transparently."

- **Ongoing education:** I believe that employee ownership plans are more about education than implementation. Companies need to invest in financial literacy coaching in order to teach workers what it means to be a shareholder and how to manage wealth. It's also an education process for management who must learn new ways of communicating and motivating workers over a longer time frame, until ownership changes again and returns are realised.

- **Scalable process:** Managing and rolling out an incentive plan to hundreds or thousands of workers is different than sharing equity with a few dozen managers. Administratively, employee ownership plans require simple, clear processes that can be scaled as the company grows. Ownership Works has the **tools and resources** to help.

Amid worsening inequality, figuring out how to increase employee equity should be on every business owner's agenda. It's time for shareholders to share.

Find article at

https://knowledge.insead.edu/responsibility/when-shareholders-share-business-benefits

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About the author(s)

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About the research

The case studies **KKR and CHI Overhead Doors (A): Sharing Profits fairly through Broad Equity Ownership** and **KKR and CHI Overhead Doors (B): Raising Company Performance While Improving Social Equity** are published by **INSEAD Publishing**.

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