



The war for talent is real. One strategy for private businesses to differentiate is to allow employees to be actual owners in the business. We have known Verit Advisors for many years, and have collaborated in numerous situations to help make the employees business owners. As a long-term financial provider, we can provide capital for an ESOP conversion as well as support the on-going capital needs of this ownership structure.

Why do employee-stock ownership plans enjoy an advantage over non-ESOPs in recruiting and retaining talent? Just check out the website and social media of Hypertherm, an employee-owned S-Corporation. The Hanover, N.H., global maker of advanced industrial cutting systems has been an ESOP since 2001 and 100% associate-owned since 2013 – and maintains that employee ownership drives its success.

You'll see associates, which at Hypertherm all employees are termed, such as material handler Devon. She stands proudly with her tattooed arms folded together, touting that she's not just an employee, but an owner. On the job-openings page, machine operator Jared M. exclaims, "Ownership means I matter." Assembler Naomi S. explains, "Ownership means to me that I work for all of us." And manufacturing leader Matt M. expounds, "Being an associate owner means being able to add value and challenge the status quo."

A prospective associate also discovers that Hypertherm has had a no-layoffs philosophy for over a half-century; provides annual profit-sharing bonuses along with the significant retirement amount an ESOP can deliver; and gives its 2,000 associates worldwide 40 hours of paid time off annually for community volunteering. The company also surpasses industry averages for hiring from within because of a superb training and tuition-reimbursement program.

No wonder Hypertherm lands a higher percentage of job applicants, while achieving a lower employee turnover rate than non-ESOPs.

"It's not easy explaining to young applicants what an ESOP is and its value, so we are very deliberate about emphasizing that we're all in it together and we have shared values and shared rewards," explains Executive Vice President and Chief Financial Officer Robert Masson. "We spend a lot of time on cultural immersion and reinforcing the employee-ownership benefits."

Study after study finds that employee ownership generally makes a genuine difference in hiring and retaining talent, an advantage that has been critical during the Great Resignation that erupted during the coronavirus pandemic.¹ From 2014-2017, turnover at ESOPs was 10.8% vs 27.1% at non-ESOPs, according to National Center for Employee Ownership statistics. While more-recent data isn't available, those earlier statistics suggest the turnover rate remains substantially less.

Moreover, research by John Zogby Strategies on behalf of Employee-Owned S Corporations of America, found that employees at S Corporation ESOPs experienced fewer financial setbacks and perceived greater financial security during the pandemic than did employees of non-ESOPs.²

- Roughly one-third of non-ESOP employees reported the pandemic had a negative impact on their household finances and savings compared to only 12% of ESOP employee respondents.
- Thirty percent of non-ESOP employees lost a job or had their job downsized versus 4.5% of ESOP employees.
- Sixty-five percent of non-ESOP respondents worry about having enough for retirement, but only 42% of ESOP respondents said they had similar concerns.

Still, ESOPs often miss the important work of communicating the benefits of employee ownership, maintains Dean Walsh, president of Sullivan Walsh Associates, which advises companies on ways to lead and manage employees. He interviewed 20 ESOP leaders last year and concluded companies' communication strategies emphasize the retirement-related mechanics of an ESOP, almost to the exclusion of the overall employee value proposition. And he thinks that's a miss.

"Most college graduates change jobs within two years so they deeply discount the value of a retirement plan that is decades away," he contends. He advises ESOP companies to emphasize four main principals: the positive elements of the job and the work; the career opportunities; the salary, benefits, and other rewards – which include the ESOP; and then the advantages of an employee-ownership culture.

How can an ESOP effectively communicate its advantages? Here are suggestions offered by Dean Walsh and Hypertherm's Masson and based on my³ observations over 20-plus years of advising ESOPs:

- **Recognize that educating prospective employees and job candidates about employee ownership is never-ending** – Explain how employee ownership positively impacts the company, its culture, and its employees. Emphasize those advantages on your website and social media platforms, insert a hyperlink to them to your Job Openings or About Us website page.
- **Build ESOP advocates throughout the company** – Establish a communications committee that includes a representative of every major department as well as leaders. Besides striving to improve how the company explains employee ownership, it should simplify the message, avoid focusing on analytics and data, and emphasize the softer values- and culture-related benefits of employee ownership.
- **Publicize employee ownership at major company events**, especially the annual event when the year's share price is revealed to employees as well as during October National Employee Ownership month and in local media stories.
- **Develop employee-communications, such as brochures and videos, that explain the employee ownership story in a personal way** that includes how employees describe an ESOP's culture and values and the benefits of ownership to them. Hypertherm includes the [link](#) to its brochure on its Associate Ownership website page, along with videos of eight associates offering their insights about working at Hypertherm.
- **Establish a standardized onboarding process for new hires**, beginning soon after they start, that emphasizes the contributions they make to the ESOP's success as employee owners.
- **Focus on strategic planning for the business** and communicate these goals to employees so they understand how they will be contributing to the short-term success and long-term viability of the company.

Besides the significant tax advantages ESOPs deliver, they can offer enormous value to both employees and the companies that establish them. Communicating these benefits is worth the effort, as it will help attract and retain star talent that will help keep both prospering for decades to come.

Verit Advisors' view is that employee ownership will continue to prove an invaluable asset in attracting and retaining star talent as long as ESOPs continually and consistently communicate their cultural values and advantages as well as the longer-term financial benefits.

Verit Advisors unites sophisticated investment banking capabilities with a client centric boutique, fluent in ESOPs, Debt Capital Markets, Mergers and Acquisitions, and Board Advisory services. Verit was founded in 2009 and is considered to be one of the foremost experts in ESOP transactions and middle market strategic alternatives. Additional information on Verit can be found at www.verit.com

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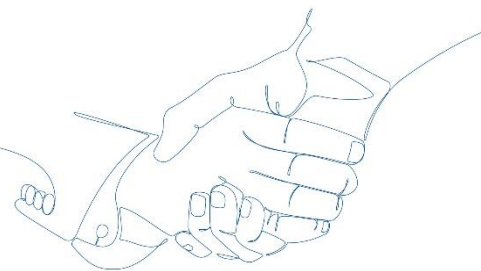
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¹First citation: *Effects of ESOP Adoption and Employee Ownership: Thirty years of Research and Experience* (upenn.edu) 1-4-2007 *Effects of ESOP Adoption and Employee Ownership: Thirty years of Research and Experience* Steven F. Freeman University of Pennsylvania, sff@sas.upenn.edu

²Second citation: *Research on Employee Ownership* | NCEO *Research on Employee Ownership. A large body of research explores the effects of employee ownership on firms and workers. This page provides a guide to key findings.*

³Third citation: *Research on Employee Ownership* | NCEO *A large body of academic research explores the effects of employee ownership on firms and workers. This page provides a guide to key findings.*

⁴New Survey Indicates ESOPs Made a Difference to Workers During the Pandemic | NCEO June 10, 2021.

⁵Josephs, Mary. "In the War for Talent, Want an Advantage in Recruitment and Retention?" *Forbes*, *Forbes Magazine*, 20 Apr. 2022

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