

S CORPORATION **ESOPs**

Advantages in an Uncertain Economy

The National Center for Employee Ownership, a private, nonprofit research, information, and membership organization, surveyed members of the Employee-Owned S Corporations of America (ESCA).

The online survey conducted between October and November 2022 received responses from 103 companies. All respondents are S corporation ESOP (Employee Stock Ownership Plan) companies and nearly all (92%) are 100% ESOPs.

For most of these ESOPs (85%), no ESOP account holds more than 5% of the shares.

- ▶ The median number of employees is 525.
- ▶ 49% have \$200 million or less and 51% have more than \$200 million in revenue.
- ▶ The median age of the ESOP of respondents is 21 years. 53% are more than 20 years old and 47% were created in the last 20 years.

More details on respondent characteristics are included at the end of the report.

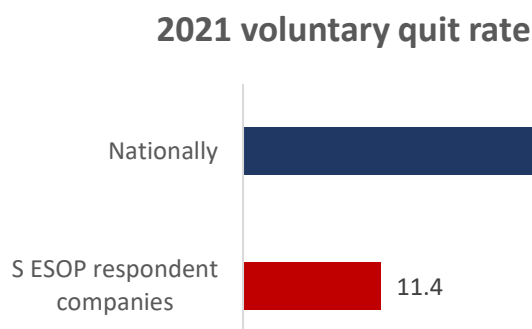
The research reported here would not be possible without the gracious participation of the survey respondents.

Made possible with funding from:



Executive Summary

At a time when businesses overall saw quit rates at highs possibly not seen since the 1970s, leaders surveyed from S corporation ESOPs report quit rates nearly **one third the national average**. Further, a key retention tool is baked into broad-based employee ownership – wealth building. This data confirms yet again that workers at S corporation ESOPs have **significantly more retirement security compared to American workers overall**.



As we flesh out below with survey responses, broad-based employee ownership, and the culture that can be built around it, helps to build trust. At a time of great uncertainty, trust takes on even more of an important role. Through this data and the words of the respondents, we see exactly how this translates into advantages for S corporation ESOPs.

✓ Emerging from the Pandemic

Asked to think about recent economic disruptions and issues, a large majority of respondents see employee ownership in a positive light (Figure 1.1). The workplace culture built up before the pandemic is a big part of this (Table 1.2). **These S corporation ESOP leaders also report remarkably lower layoff rates compared to national averages** (Figure 1.5). This results from effective recruiting and onboarding and also feeds a strong workplace culture.

✓ Labor Market Challenges and Advantages

S corporation ESOPs are, of course, not immune to the labor market challenges that all businesses face. Most respondents see retaining and recruiting employees as a challenge (Table 1.5). Workers at these S corporation ESOPs are building wealth (**median ESOP account balance of \$80,500**). Most also have a 401(k) balance. This provides a unique advantage for ESOPs to build loyalty and avoid the enormous costs of turnover. As a comparison, Americans who have any retirement account report a median savings of \$30,000 - meaning employee-owners at S corporation ESOPs have, on average, significantly more than double the retirement savings of their non-ESOP counterparts.

✓ Recruitment and Retention Strategies

Respondents use an array of techniques in their hiring process to get the right culture fit (Table 1.9). Nearly all note employee ownership on their website. These ESOP leaders are using a range of strategies to deal with labor market challenges. Most prevalent are increasing normal base pay and cost-of-living adjustments. ESOP leaders are strongly focused on non-management employees, with nearly all (94%) reporting increasing this group's base pay (Table 1.7).

Emerging from the pandemic

Coming out of the pandemic, businesses faced a landscape of labor market turbulence, supply chain issues, inflation, and general uncertainty. This may all be the new normal. The roles played by ownership structure and workplace culture continue to be critical to this discussion.

In thinking about the effect of the pandemic and shutdowns, there is variation across ESOP respondents. The largest portion (42%) see the overall impact of the pandemic as negative, but nearly as many (37%) see a net positive impact on their business.

Table 1.1

Overall, how was this business affected by the pandemic and shutdowns?	Percent
Large positive effect	15%
Moderate positive effect	22%
Little or no effect	20%
Moderate negative effect	37%
Large negative effect	7%

Leaders at S corporation ESOPs in the survey feel positive about their workforce and how they performed during the pandemic and shutdowns.

Table 1.2

How would you rate the performance of your workforce through the pandemic and shutdowns?	Percent
Excellent	58%
Good	39%
Just Fair	3%
Poor	0%

“Employee ownership has helped weather the tough times throughout the pandemic as fellow owners came together virtually and worked even harder to make sure the company was able to sustain through it.”
– Respondent, Construction, 268 employee-owners

An overwhelming majority of respondents report feeling optimistic about the financial outlook for their business over the next year.

Table 1.3

In general, would you describe your financial outlook for your business over the next 12 months as:	Percent
Very optimistic	41%
Somewhat optimistic	43%
Somewhat pessimistic	15%
Very pessimistic	1%

“The employee ownership plan has been key in employee retention and in attracting new employees.

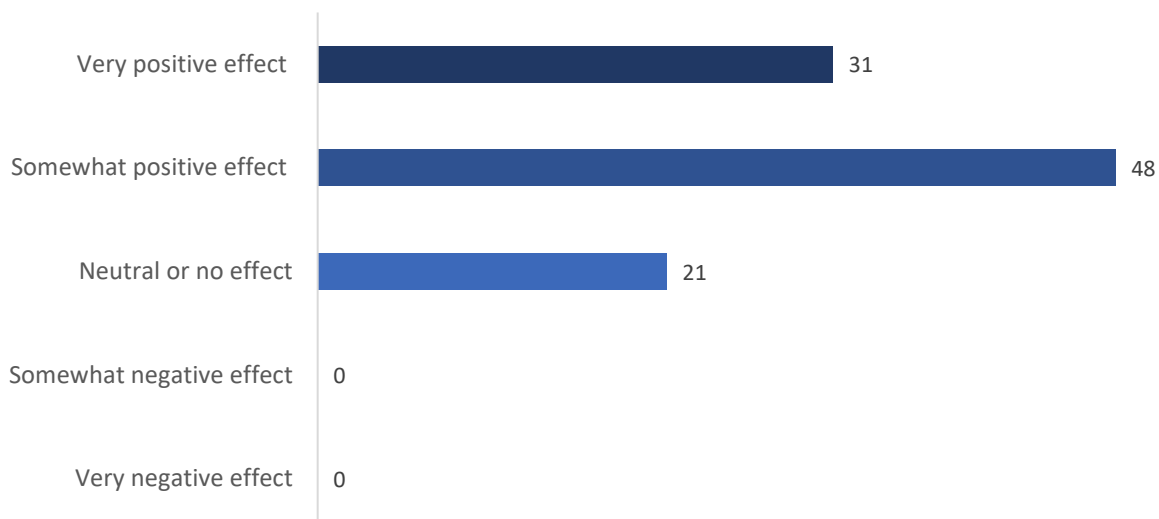
Especially during the pandemic, **our company was not only able to keep going but experienced growth, all of which has been driven by the ESOP.**”

– Respondent, Construction, 1,806 employee-owners

Asked to think about more recent economic disruptions and issues, a large majority of respondents see employee ownership in a positive light.

Figure 1.1

How has being employee-owned affected your company's ability to deal with issues in the economy like inflation, supply chain disruptions and labor market tightness, if at all?



“Ability to recruit...while maintaining industry-low turnover (with a work-from-office policy!). Lack of top line pressure enables sound decision-making and quality risk management; we are focused on the long term. Ownership of work/delivering a positive outcome; **employee-ownership drives commitment and ingenuity in navigating issues.**”

– Respondent, Professional Services, 8,606 employee-owners

“Employee ownership has given people a different perspective about their individual discretionary effort - **they know that their hard work accumulates in value and return for themselves and the people they work with** - not some group of investors that they do not know.”

– Respondent, Wholesale Trade, 2,700 employee-owners

“While there is no way for us to avoid the economic issues affecting nearly every company, **being employee-owned/private-owned allows us to take a long-term view.** This lets us do the right thing for our employees and continue making investments in the business rather than just focusing on making quarterly earnings targets.”

– Respondent, Retail Trade, 22,000 employee-owners

Respondents were asked to elaborate on the impact of employee ownership. The dominant themes include:

- The ESOP culture. “Employee ownership helps answer the ‘why am I working so hard’ question.”
- During the pandemic, transparency became even more valuable. “Financials are transparent to the employee-owner. They understand the impacts of the economics and the decisions being made to benefit the ESOP.”
- Not having to answer to outside stockholders. “Employee ownership permitted us to make careful adjustments to investments and ESOP benefits to sustain the company into the future rather than responding to outside investors with a shorter time horizon.”

The positive views of employee ownership show up in how ESOP leaders rate their culture. These high ratings fit with other findings in the survey, particularly the low turnover at these ESOPs compared to the broader economy (see Figure 1.4).

Table 1.4

How would you rate the ownership culture at your company?	Percent
Excellent	38%
Good	50%
Just Fair	11%
Poor	1%

“High level of engagement and understanding of why we made the decisions we made. **Everyone felt like the organization was trying its best to take care of employees in an uncertain time.** No notion of ‘them vs. us.’”
– Respondent, Finance, 200 employee-owners

Labor Market Challenges and Advantages

ESOP companies are, of course, not immune to the labor market challenges that all businesses face.

Table 1.5

How much of a challenge is each of the following to your business currently?	Percent	
	Retaining employees	Recruiting employees
A very large challenge	24%	63%
Somewhat of a challenge	61%	34%
Not really a challenge	15%	3%

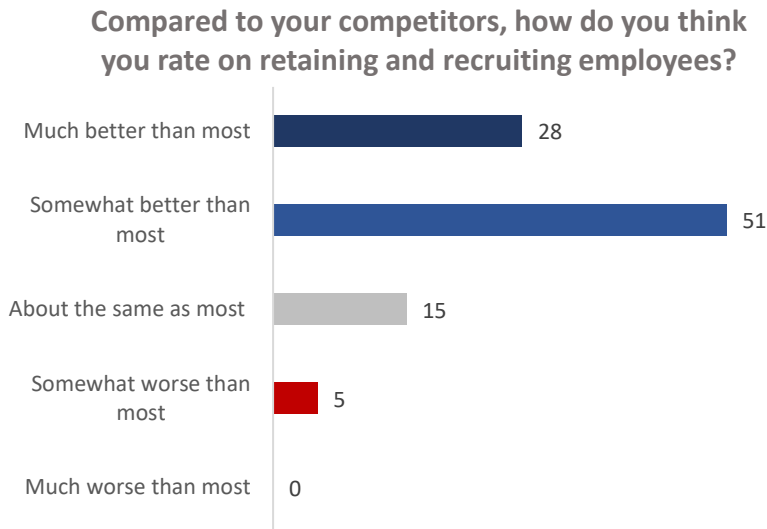
About half (55%) of the ESOP S corporation leaders surveyed see these challenges staying about the same compared to last year.

Table 1.6

How would you say your retaining and recruiting challenges are compared to last year?	Percent
Getting better	29%
Staying about the same	55%
Getting worse	16%

Most S corporation ESOP leaders feel they are doing better than their competitors on retaining and recruitment.

Figure 1.2



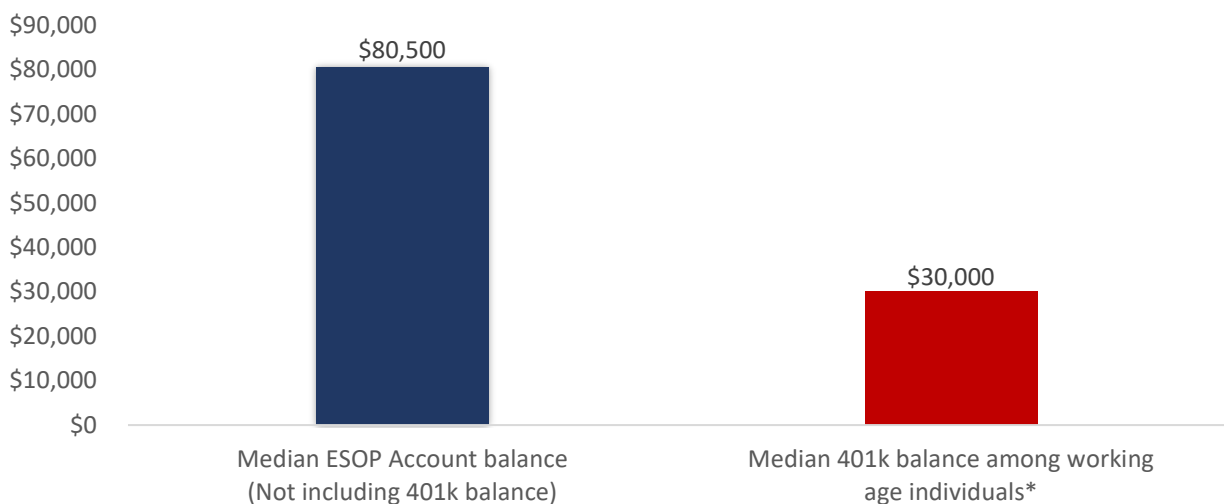
“Employee ownership has provided another tool for our team from a recruiting and retention perspective.”
– Respondent, Professional Services, 450 employee-owners

From the employee standpoint, seeing the deposits made into their accounts is a very tangible way for employees to feel valued and secure when everything around them is turbulent. This provides a unique advantage to a company with broad-based employee ownership.

Compared to workers overall, ESOPs participants at these S corporations have significantly more in their ESOP account alone. Nearly all S corporation ESOPs also offer 401(k) plans, so the assets in company-sponsored retirement plans is substantially higher for ESOP participants than this chart indicates. In addition, the ESOP contributions are, in almost all cases, purely funded by company contributions. The 401(k) balance is primarily from employee contributions.

Figure 1.3

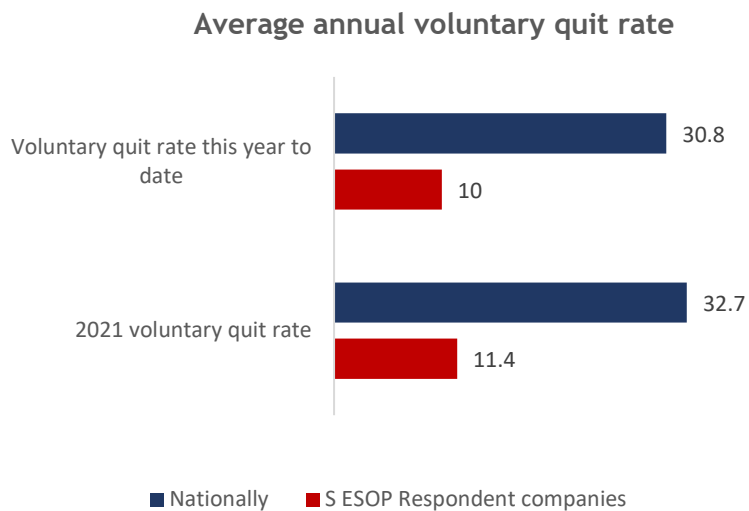
Median ESOP account balance v. Median 401(k) balance



*Source: U.S. Census Bureau, 2021 Survey of Income and Program Participation

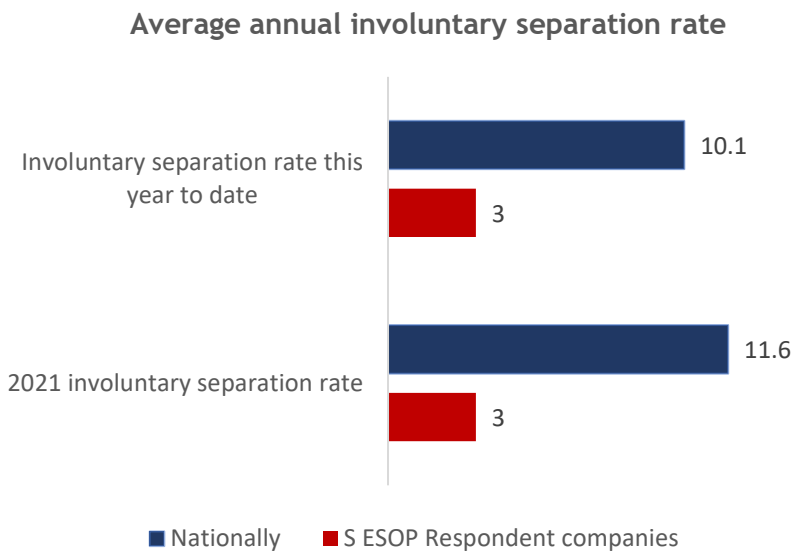
Of the areas explored in this survey, the advantage of broad-based employee ownership is seen most clearly in retention. These S corporation ESOP leaders report quit rates roughly one-third of the national averages.

Figure 1.4



These respondents are also far below the national averages on layoffs.

Figure 1.5



“It was management's desire to maintain 100% of our current workforce at the beginning of the pandemic at full salaries as **we wanted to emerge with the same strong, well-established team that we had going into it.**”

– Respondent, Professional Services, 60 employee-owners

Recruitment and Retention Strategies

Nearly all respondents have increased the normal base pay adjustment for non-management employees.

Table 1.7

Strategies used to address recruitment and retention	Executives	Other top management	Non-management employees
We increased the normal base pay adjustment for 2022	47%	67%	94%
Made adjustments to cost-of-living pay increases policy	25%	40%	55%
Introduced or increased remote work	35%	47%	54%

The second tier of recruitment and retention strategies further illustrates a focus among these ESOP leaders on non-management employees.

Table 1.8

Strategies used to address recruitment and retention	Executives	Other top management	Non-management employees
For selected employees, we match competitors' offers to avoid losing key personnel	12%	33%	44%
Increased flex time benefits	27%	34%	39%
We have added signing bonuses for new recruits at this level	16%	21%	37%
Held stay interviews	9%	18%	32%
We have added retention bonuses for selected employees at this level to enhance retention	13%	15%	21%

Respondents use an array of techniques in their hiring process to get the right culture fit.

Table 1.9

Which of the following do you use in the hiring process? Select all that apply.	Percent
ESOP mentioned in the interview process	94%
ESOP mentioned in the onboarding package	91%
Referral incentives	63%
Candidate meetings with employee-owners	56%
Other ways	6%

“We also interview to understand if the individual would have an “ownership” mindset. Meaning are they type of person that would take initiative and accountability?”
 – Respondent, Wholesale Trade, 2,650 employee-owners

Very few respondents do not note employee ownership on their website at all.

Table 2.0

How do you discuss being employee-owned on your website? Select all that apply.	Percent
It is prominent on your career page	67%
It is prominent on your home page	58%
It is incorporated into your company logo	18%
We do not currently note we are employee-owned on our website	9%

The respondent companies

The next several tables describe the characteristics of the respondent companies.

Table 2.1

Industry	Percent
Construction	25%
Professional, scientific and technical services	25%
Manufacturing	22%
Wholesale trade	12%
Retail trade	4%
# of respondents	103

Table 2.2

Industry	Number	Percent
\$50 million or less	20	19%
\$51 million to \$100 million	17	17%
\$101 million to \$200 million	13	13%
\$201 million to \$500 million	20	19%
\$501 million or more	33	32%
# of respondents	103	100%

Table 2.3

ESOP established	Percent
More than 20 years old	53%
In the last 20 years	47%

Table 2.4

Full and part time employees	Percent
Less than 500	49%
500 or more	51%