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Compensation & Benefits Review
2024, Vol. 0(0) 1–18
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DOI: 10.1177/08863687241272556
journals.sagepub.com/home/cbr

Overcoming Barriers to Employee Ownership: Insights From Small and Medium-Sized Businesses

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Abstract

This research investigates the limited adoption of employee stock ownership plans (ESOPs) among small-to-medium sized businesses (SMBs) in the U.S. Through interviews with 30 SMB owners across various industries, we identify the key barriers to ESOP adoption as lack of time, money, and skills on the part of the owners. In doing so, the study suggests that a "shared ownership light" model, which involves sharing profits, information, and decision-making opportunities with employees, appears more feasible for SMBs than ESOPs. For SMBs that are interested in ESOP adoption, our research suggests that organizations providing employee ownership services could better assist SMBs by offering templatized models and best practices for profit-sharing plans, open-book management, and structured employee participation. The paper aims to broaden the discussion around shared ownership by considering a spectrum of options that have the potential to increase both value creation by and value-sharing among employees.

Keywords

profit-sharing, participatory management, employee participation, incentives, employee ownership, open book management, gain-sharing, worker cooperative, ESOP, shared ownership

Context for Research

This research explores why shared ownership structures have not penetrated more of the U.S. economy, particularly among small-to-medium sized businesses (SMBs), which make up the largest share of American employers. This question is motivated by the declining number and share of employee stock ownership plans (ESOPs), the most common form of employee ownership in the U.S. as a percentage of all employers. Data from the National Center for Employee Ownership (2023a) and the U.S. Census Bureau (2023a) reveal these trends, which are depicted in Figure 1:

Explanations abound as to why shared ownership has not reached more businesses, including: lack of awareness, complexity, regulatory risk, and inaccessible capital (Certified EO, 2023; ESOP Association, 2024a; Ownership America, 2021). However, the sources of these explanations are advocates and lobbying organizations in the employee ownership field, rather than independent researchers. The ESOP Association (2024b), the

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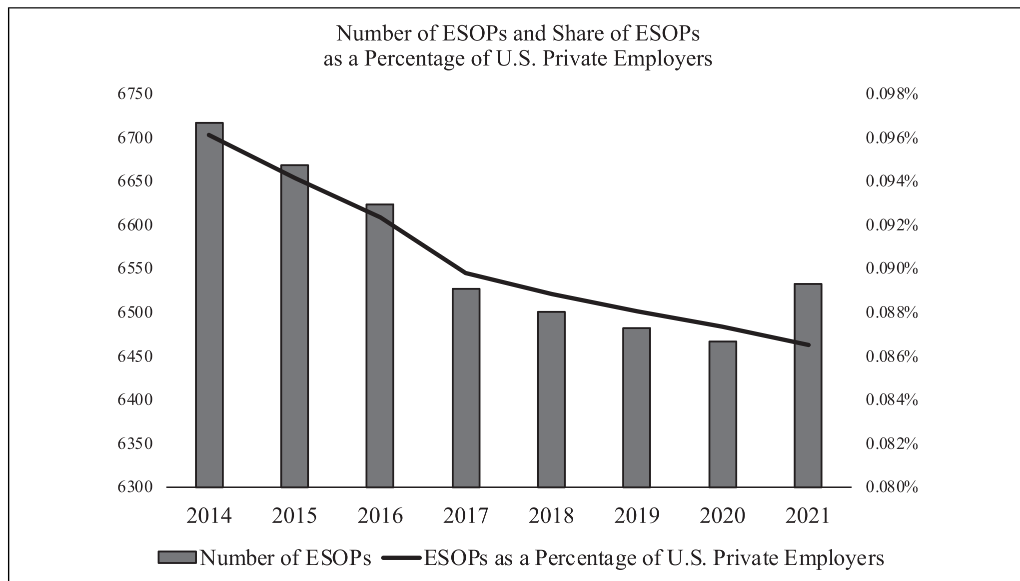

Figure 1. Measuring the incidence of employees stock ownership plans, 2014–2021

leading ESOP lobbyist organization in the U.S., is conducting the first research study assessing business owners' attitudes toward employee ownership but has not yet publicly released its findings as of April 2024. Given the gap in such studies to date, no clear answers have emerged regarding the question of why SMBs do not participate more readily in shared ownership plans. This paper seeks to serve as a starting point for that research, namely through reporting findings from one-on-one interviews with SMB owners who had considered, adopted, or rejected a shared ownership plan.

Defining Terminology & Shared Ownership Structures

We define SMBs as firms with 5–299 employees, while acknowledging the fact that other definitions exist. We exclude micro-businesses with fewer than five employees given that their small size greatly constrains the capacity for and value of sharing ownership. We also exclude businesses with 300+ employees to focus on firms below the upper middle market. Even with these exclusions, the segment of employers with 5–299 employees comprises 36% of all businesses in the U.S. and employs 42% of the U.S. workforce, presenting a significant market opportunity for shared ownership (U.S. Census Bureau, 2023b).

To define "shared ownership," also referred to as "shared capitalism," the term refers to a "diverse set of compensation practices through which worker pay or wealth depends on the performance of the firm or work group" (Kruse et al., 2010). These practices include individual stock options, profit-sharing (including gain-sharing), employee stock ownership plans (ESOPs), and worker cooperatives. See Table 1 for an overview of these structures. It does not include pay systems that are based on individual performance (e.g., piece rates, commissions). We also exclude employee ownership trusts (EOTs) from our literature review and analysis given their rarity (estimated to total 21 in the U.S. as of 2023), limiting the scope for analysis (Dudley, 2023). For context, an EOT is a trust that business owners can establish to perpetually hold all or part of their company's shares. The purpose of the trust typically includes the employees' wellbeing but may include

other aims such as community or environmental benefits.

The differences between these shared ownership structures can be distinguished most basically on how they share both financial value and control powers. These two dimensions reflect two fundamental rights that exist in a business: financial rights (i.e., who is entitled to what percentage of the business's value) and control rights (i.e., who wields power over which decisions).

Every structure can *potentially* share both financial value and control with employees; however, these structures differ in the degree to which this sharing is guaranteed, conditional, or wholly discretionary. An alternative way to view the above table is as a two-dimensional continuum on the degree to which sharing of value and control is extended to employees. See Figure 2.

For illustrative purposes, Table 1 and Figure 2 drastically simplify the financial and control set up of these heterogeneous structures. Experts in the shared ownership field may suggest that this comparison is misleading, given the vastly different intent and objectives behind each structure (National Center for Employee Ownership, 2021). For example, cooperatives are generally launched to achieve mission-based objectives on behalf of workers (NCEO, 2021). In contrast, stock options are commonly set up to increase employee retention while conserving short-term cash (NCEO, 2021). What we believe these structures share, however, is their ability to shape worker behaviors in the firm and improve business outcomes. In other words, these structures serve as employee incentives in the marketplace, competing not only against each other but with more well-known alternatives (e.g., annual cash bonuses tied to individual performance and employee recognition programs that are used widely across industries) (Monaco, 2020; World, 2019). This paper frames these shared ownership structures within the employee incentive marketplace, while acknowledging differences in intent. We believe that this framing broadens the scope of our analysis beyond the benefits of shared ownership that are often touted by advocates. For example, the above chart may suggest to a certain advocate that worker cooperatives are the most appealing given their significant guarantees for workers. But we deepen this analysis by asking: What are their benefits *and* costs?

Shared Ownership's Benefits and Costs

From the perspective of SMB owners, each of these shared ownership structures entails potential benefits but—as we argue—much clearer and more salient costs. In terms of benefits, shared ownership structures have been broadly shown to improve business performance and benefit employees (NCEO, 2023c). The literature on ESOPs provides the most robust evidence of such improvements—we therefore focus below on reviewing the research on the firm and employee benefits of ESOPs. Despite this focus, other research and case studies have suggested similar improvements associated with profit-sharing, gain-sharing, and equity-based compensation in certain contexts (Forman, 2023; Kruse, 1993; National Association of Landscape Professionals, 2022). We summarize the most recent evidence of the impact of ESOPs in the U.S. on performance at the firm and employee level in the sections below.

Firm Benefits

Studies conducted over the last several decades have documented increased productivity as a result of adopting ESOP structures. For example, Kruse and Blasi (1997) conducted a systematic review of all studies on ESOPs in the 1980s and 1990s and found productivity increases of up to 4%–5% on average in the year an ESOP was adopted. Blasi et al. (2013) conducted a related study of 300 ESOP and non-ESOP companies in the same industry and of the same size, finding that the ESOP firm group had significantly higher sales growth and higher sales per worker than matching firms without ESOPs.

Table 1. Comparing Shared Ownership Structures by Financial Rights and Control Rights.

Structure	Shared financial value	Shared control[1]	Example
Stock options	**Yes, conditionally**—dependent on the design of the plan and the firm's valuation	**Discretionary and uncommon**—tech startups, where options appear most often, tend to be founder-centric	In Company A, employees receive the right to buy company shares at a predetermined price in the future. They are unlikely to have visibility into the firm's financial performance or opportunities to voice ideas to improve performance. Employees do not receive voting rights unless the options are exercised.
Profit-sharing (PSP)	**Yes, conditionally**—dependent on the design of the profit-sharing plan and the firm's profitability	**Discretionary and limited**—firms with PSPs sometimes share a degree of control so employees can influence the profits that they receive shares of	In Company B, employees receive an annual profit-sharing bonus based on the firm's profitability, their salary, and potentially other criteria such as tenure. They may receive visibility into the firm's financial performance and opportunities to voice ideas to improve performance.
Employee stock ownership plan (ESOP)	**Yes**—the trust allocates shares among qualified employees	**Discretionary and common**—firms with ESOPs commonly share a degree of control given that selling owners often center employees in their operating model	In Company C, employees are annually allocated shares from the ESOP trust based on their tenure and salary. They are likely to receive information on the firm and plan performance and often receive opportunities to voice ideas to improve performance.
Worker cooperative	**Yes**—the co-op distributes firm profits to worker owners	**Yes**—worker owners elect the board, which oversees management	In Company D, worker owners receive patronage dividends (i.e., a share of profits) based on the co-op's performance and their measurable contributions to it (e.g., number of hours worked). Worker owners vote on major business decisions (e.g., capital investments, dividend distributions) on the principle of one worker, one vote.

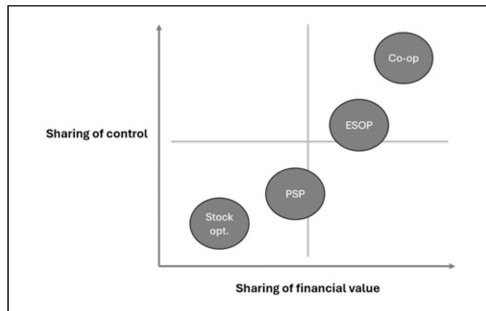

Figure 2. Mapping shared ownership structures by sharing of control and financial value with employees.

Research has also demonstrated the critical importance of employee participation for realizing these productivity gains. In the context of ESOPs, employee participation refers to management practices that empower employees to voice, plan, and act on ideas that shape how the company operates and invests. An example is a firm that allocates a pool of company funds for investments in workplace improvements, and allows employees to voice their ideas for potential investments and to vote on which investments are made by the firm. Rosen and Quarrey (1987) analyzed the financial performance of 45 ESOPs, which they divided into three groups by their level of employee participation. The key finding of their research was that the group with the highest level of participation grew 8%–11% faster post-plan adoption than pre-adoption performance would have predicted. In contrast, the groups with moderate participation and low participation saw comparable or lower performance, respectively. Multiple studies have corroborated this critical point: employee-owned companies see the highest performance gains when they involve employees in decision-making (Jones & Pliskin, 1988; Kruse, 1997; Michie & Oughton, 2002).

As Rosen and Quarrey (1987) wrote in their *Harvard Business Review* article, "Ownership and participation together have considerable impact… [whereas] ownership alone has a modest but important effect." This research suggests that capturing the value of shared ownership rests significantly on participatory management practices. This research further raises the question of whether participatorily managed companies with non-ESOP models of shared ownership can achieve comparable levels of performance to that of participatory ESOP firms. We will return to this point later when we discuss our research findings.

Workforce & Employee Benefits

In addition to bottom-line and worker productivity benefits, studies have started to document the workforce and employee benefits of ESOP structures. From a workforce perspective, firms that offer ESOP structures are more likely to retain their employees. Josephs (2022) conducted an analysis of 160 firms from 2014 to 2017, finding that turnover at ESOP firms was 10.8% compared to 27.1% at non-ESOP firms. During the pandemic, the Employee Ownership Foundation (2020) found that ESOP firms were 3–4x more likely to retain staff even without government support as compared to non-ESOP firms. The National Center for Employee Ownership (2023b) surveyed ESOP firms on their voluntary employee quit rates, finding that the survey group's average was roughly one-third of the national average.

Part of the reason that ESOP firms may be better equipped to retain workers is because these plans provide significant material benefits. The NCEO (2017) found that participation in an ESOP was associated with 92% higher median household net wealth, 33% higher median income from wages, and 53% longer median job tenure for American workers early in their career. In a separate analysis by the NCEO (2010), ESOP participants were found to have 2.2 times more in retirement plans and 20% more financial assets overall as compared to their non-ESOP peers.

In reviewing this literature, it becomes clear that ESOPs have the potential to create value for firms and employees. While there is an abundance of research on the benefits of employee ownership structures, the perceived costs of these structures—which vary widely

depending on the structure a firm adopts—are less widely documented.

To fill this gap, we develop a framework that breaks down these costs into financial, time-based, and intangible considerations that relate to the owner's and the employees' perceived level of risk (See Table 2). Then, we substantiate and expand on this framework by conducting interviews with 30 small business owners who have considered or are currently using ESOP structures.

Table 2 is a simplification to illustrate a point: the more broadly a structure "shares" ownership in the firm's financial rewards or decision-making, the more complex it becomes for a business owner to adopt and successfully manage.[3] From the perspective of a business owner, this complexity may appear as a barrier to their line of sight: they may clearly see the immediate costs of setup and implementation as compared to other options, but the benefits could be harder to distinguish and are more delayed.

Based on this framework, the risks of investing in shared ownership structures appear exceptionally high for small business owners within the SMB segment. For this group, margins are thin, available cash is minimal, and in turn, the risk of making a bad investment is high (JP Morgan Chase Institute, 2020). These conditions lend credibility to our argument that SMBs are sensible to price the upfront expenses and discount future returns of shared ownership at higher rates than their larger counterparts.

Perhaps the greatest constraint on these businesses; however, is their owners' time (Lesonsky, 2022). The vast majority of this segment's owners are owner-*operators* whose small staff often forces them to play the

Table 2. Comparing Shared Ownership Structures by Types of Costs for Employers.

Structure	Financial costs	Time costs	Intangible costs
Stock ownership and stock options	**Low**—$1.5–3K in annual platform subscription fees for a small business with 50 employees; $8–10K in annual fees for a business with 200 employees (Slashdot, 2024)	**Moderate**—significant complexity is involved in valuing and distributing options so as to reduce business risk and optimize employee behaviors	**Moderate**—significant employee education is required given complexity, and firm cost of options is often higher than their value, especially to risk-averse and undiversified workers (Hall & Murphy, 2003)
Profit-sharing (PSP)	**Low**—$2–4K in legal fees to set up + $2–4K in fees if company wishes to alter plan design or policies (Schuler, 2023)	**Low**—plans are straightforward to design but may require management attention to alter if plan's goals or payouts deviate from company's goals and performance	**Low**—employee education and owner administration is minimal given plan's simplicity (i.e., employer pays out a predefined percentage of profits as an employee cash bonus)
ESOP	**Very high**—~$50–200K for transaction fees + ~$10–20K in annual valuation fees (National Center for Employee Ownership, 2022)[2]	**High**—a transaction requires 4–6 months from the point of decision to sell and significant, ongoing education for employees	**Moderate**—employees may misunderstand whether the ESOP affects decision-making responsibilities
Worker co-op	**Low**—<$5K for legal fees	**High**—cooperatives require 1–3 years for owners and employees to adopt new structures, processes, and culture	**High**—many business owners view democratic control (i.e., "one worker, one vote") as radical and disruptive

operator more than the owner role. When they have a free moment, they are much more likely to work the cash register than project cash-flows to determine the viability of sharing equity.

As a contribution to this discussion, we move beyond reviewing the published research on this topic and conduct 30 in-depth interviews with SMBs in the U.S. who had at least considered adopting a form of shared ownership. Some had successfully implemented employee ownership as an ESOP; others had introduced a profit-sharing plan; and others had introduced neither for reasons they expressed.

Research Question

The core question this research seeks to address is currently one of the most discussed topics among scholars and practitioners in the field of shared ownership: *if these structures are great for businesses, why don't we see more of them?*

This question has been answered from many angles—capital markets, government policy, societal attitudes—but our research centers on one underexplored explanation: product-market fit. Namely, if we view shared ownership structures as employee rewards strategies, or "products," in the market that a business can deploy to meet its needs, then why isn't the product "selling?" This paper builds on interviews conducted with 30 SMBs and examines this question from three angles: (1) What are the gaps in product-market fit? (2) What "products" (i.e., rewards strategies) compete with shared ownership structures? (3) What are the unique value propositions of shared ownership among these competitors?

Both firms with and without shared ownership structures were interviewed to answer these questions. In addressing these questions, our work contributes a deeper understanding of the perceived costs of ESOPs among SMBs, a group of business owners who could benefit most from these plans' employee attraction and productivity benefits but seem most reluctant to adopt them.

Target Population & Sample

Thirty small business owners were interviewed for this research. All interviewees operated in one of three industries: manufacturing and related services; professional, scientific, or technical services; and food and hospitality; were small-to-medium sized businesses, ranging from a size of 5–9 employees to a size of 100–299 employees; and operated across geographies in the U.S., but because of connections made by service provider partners in Colorado and New York City, were concentrated in these two geographic markets. See Table 3 for an overview of the characteristics of these businesses.

In terms of size, the target interviewees were business owners with 5–99 employees, which made up 21 of the 30 interviewees. The remaining nine interviewees had 100–299 employees and were included for their insights reflecting on their growth from a small to a medium-sized firm. Regarding industry, firms in professional, technical, and scientific services and sectors were selected, given the disproportionate share of firms with ESOPs in these sectors (National Center for Employee Ownership, 2023a). In turn, service provider partners who set up interviews with firms most often made referrals from these industries. Firms in food and hospitality were also selected given that the industry has the highest worker dissatisfaction and turnover rates among all sectors, and shared ownership, particularly employee ownership, is underrepresented in the sector (National Center for Employee Ownership, 2023a; U.S. Bureau of Labor Statistics, 2023). Our interviews with these firms were designed to shed light on the reasons for this underrepresentation and assess whether the industry presents opportunities for shared ownership to solve workforce challenges.

In terms of shared ownership structures, as illustrated in Table 4, interviewees either used an ESOP alone (16.67%), a profit-sharing plan alone (16.67%), a combination of the two (16.67%), or had no shared ownership plan in place at the time of the interview (50%).

These groups were selected to distinguish the differences in perceived costs and benefits of ESOPs between those who shared ownership (who would likely perceive lower costs and

Table 3. Research Interviewees by Industry and Enterprise Size.

Enterprise size (# of employees)	Prof, Tech., Sci. Services	Mnfg & Related Services	Food & Hospitality	Total
5–19	2	3	3	**8**
20–99	7	2	4	**13**
100–299	1	6	2	**9**
Total	**10**	**11**	**9**	**30**

Table 4. Research Interviewees by Shared Ownership Structure and Enterprise Size.

Enterprise size (# of empl.)	ESOP + PSP	ESOP Only	PSP Only	No Shared ownership	Total
5–19	0	0	2	6	**8**
20–99	2	2	1	6	**11**
100–299	3	3	2	3	**11**
Total	**5**	**5**	**5**	**15**	**30**

greater benefits) and those who shared only profits (who would likely perceive higher costs and lower benefits). Some firms also used participatory management practices, particularly open book management (OBM) and employee participation in decision-making, which were explored in our interviews. For context, OBM is the management practice that involves sharing financial information with employees to create transparency around business performance and goals across the firm (Fostch & Case, 2017). Employee participation in decision-making refers to management practices that empower employees to voice, plan, and act on business ideas that shape how the company operates and invests (Wilkinson et al., 2010).

Firms with cooperative structures and employee ownership trusts were excluded from the analysis, given the difficulties of connecting with these firms via intermediaries. Firms with stock options were excluded, given the evidence of options' limited ability to build broad-based wealth within firms and relatedly, to drive improvements in employee behaviors and productivity due to the complexity of these instruments (Vermeulen, 2009).

Data Collection

The research was conducted via 1-hour video call interviews with business owners. The core purpose of the interviews was to identify the role of shared ownership strategies in their firm. Interview questions can be found in Table 1A in the Appendix. The same data points were gathered from each interviewee about their business, workforce, and experience with shared ownership plans.

All business owners were first asked to provide information about their businesses including their firm size and market segment, number of staff, and the businesses' key activities and KPIs. Business owners then provided information about their workforce. Here, they described their workplace's culture and values, the employee behaviors that they sought and encouraged, current compensation, benefit, and reward structures, and their current workforce concerns such as hiring, retention, and engagement.

For firms that had an ESOP, profit-sharing plan, or both structures, business owners described the resources that they had leveraged to successfully start and maintain these structures, the barriers and pain points that they had confronted and continued to confront, other reward structures that they used such as bonuses and gift cards, and the complementary shared workplace practices that they employed alongside these structures, namely employee financial literacy, open book management, and high employee involvement. They also described the impact and value creation they observed in the business as a result of these structures. For firms that had no shared ownership structures in place, business owners described the

barriers that they had observed that prevented the set-up of these structures, and they described the existing solutions they used (if any) and viewed as viable substitutes to shared ownership.

Key Findings

Five findings from the research follow below, organized by this paper's three research questions:

- **Gaps in product-market fit**
  1. **Adoption barriers.** Most interviewees with 5–19 employees saw two key constraints to adopting an ESOP or PSP: the firm's cash and the owner's time.
  2. **Management barriers.** For interviewees with the time and money resources for adoption, most were dissuaded by a sense that they lacked skills for effective implementation.
- **"Products" that compete with shared ownership**
  3. **More appealing alternative plans.** Interviewees doubted the return on investment for shared ownership relative to existing employee reward structures, particularly cash bonuses and paid time off.
- **Defining shared ownership's unique value proposition (UVP)**
  4. **The "purpose-first" motivation for ESOP adoption.** Interviewees with ESOPs had adopted the plan first due to the owner's personal values—namely, preservation of the business's legacy, culture, and team—and second because of its potential value to the firm.
  5. **The view of PSPs as value creation tools.** Interviewees with PSPs focused particularly on the value-creation effects of their plan, namely in increasing employees' readiness to engage, share best practices, and act on improvements.

Below, the paper explores each of these findings from the perspective of those interviewees who spoke to relevant points:

Gap in Product-Market Fit: Adoption Barriers

Five interviewees—including three firms with 5–19 employees and two firms with 50–99 employees—shared that a lack of cash and time were the core reasons they opted against sharing ownership. Lack of skills was an additional reason referenced by three interviewees. One interviewee, the owner of a manufacturer of outdoor equipment, spoke to many of these concerns:

> "I see employee ownership as a benefit for my employees and for me. I want to give them a stake … But it's hard to predict when we'll achieve profits and by how much. So how can I set up a plan to share profits?… Also, we don't have strong management skills on my team so giving everyone more say might create more issues than it solves … And my accountant tells me we're too small to set up any kind of plan."

Several takeaways were drawn from this segment of interviewees.

The owners in this segment perceived two key barriers to adoption: money and/or time. As the above quote illustrates, for many business owners in this segment, their firm's profit margins were tight and/or fluctuated seasonally, which reduced the firm's value and, therefore, its value to employees. Many interviewees in this segment were owner-operators who "wear many hats," including the firm's CEO, COO, and CHRO, and had a schedule that allowed little time to prioritize non-operational issues.

While a lack of information is a commonly reported barrier for the adoption of ESOP structures, the owners that we interviewed in this segment understood the value of shared ownership from a business perspective (ESOP Association, 2024b). A version of the phrase, "sharing the load," was a benefit of shared ownership structures that many owners voiced. The interviewees shared an intuitive understanding of the employee engagement and productivity improvements that these structures could yield.

Despite understanding the potential benefits of ESOP structures, the owners that we interviewed in this segment often reported that they lacked the skills and resources to implement a shared ownership structure. Many of these firms had reached a stage where sustaining profits was the top priority, but business management was not a core competency of the team. Professional advisers often dissuaded owners from sharing ownership

or profits based on perceptions of financial risk (e.g., the firm's cashflows are too unpredictable to promise employees a share of the firm's financial value).

Gap in Product-Market Fit: Management Barriers

Six interviewees—including three firms with 20–49 employees and three firms with 100–299 employees—were in the growth stage of their business and saw shared ownership as an admirable but risky idea. Their existing priorities never left enough time to consider a legal or capital restructuring of the business. As one interviewee, the owner of a Colorado-based data analytics firm with 20 employees, shared:

> "I do see the value of employee ownership and profit-sharing. But we just don't have the time to implement it. There's always a higher priority, another fire to put out … The other issue is that I don't know how to do it in a way that protects my business. [The state of Colorado's] grants that pay for technical assistance with employee ownership aren't enough. I need a professional who takes time to really understand my business and customize a plan."

Three key takeaways were drawn from this segment of interviewees:

First, the owners that we interviewed saw the benefits and burdens of the firm's sustained growth. Many of the firms in this group were in a financial position to adopt a shared ownership structure. Yet, as the above example illustrates, the owner's time was often constrained by a growing list of management tasks, most of which were new to the owners in this segment.

Second, the owners in this segment often "know what they don't know" and expressed nervousness about making structural changes. The quote above highlights the fact that many business owners in this segment saw the appeal in shared ownership structures but also saw the road to adoption as long and risky. Among this segment, incremental changes to management practices (e.g., using employee pulse surveys, and holding company meetings more regularly) were more appealing.

Third, the owners in this segment said that advisory services for employee ownership were too costly and/or time-intensive. The owner above, for example, saw the time necessary to apply and wait for a technical assistance grant as more costly than the funds they would receive. This owner wanted more intensive and sustained support than they believed available consultants could provide. This sentiment was commonly shared among the business owners we interviewed in this segment.

"Competitors" to Shared Ownership

Eight interviewees—including three firms with 5–19 employees, three firms with 20–49 employees, and two firms with 100–299 employees—spoke to alternative employee benefit solutions they knew and trusted. These solutions rewarded individuals rather than teams, and they saw these incentive systems as appropriate for their context. As one interviewee, the owner of a New York City-based bar with 27 employees, shared:

> "Employee ownership and profit-sharing sound nice in theory. Particularly because our biggest challenge is getting employees to really invest in our business's success … But our system of pooling and sharing tips is the best system we can find. It rewards the individual employees who contribute the most … If we rewarded the employees as a team, hardworking employees would complain about how it's unfair."

Key takeaways drawn from this segment of interviewees:

Business owners recognized the pivotal role that their employees play in the firm's success and believed financial incentives were necessary and effective. Based on this recognition, many of the owners we talked to had designed their own incentive system based on cash (e.g., pooled tipping) or time (e.g., performance-based PTO) and expressed that it was "good enough."

The owner quoted above acknowledges the flaws of their current system yet believes that a perfect balance cannot be struck between egalitarian (e.g., distributing rewards equally

among all employees) and individualist (e.g., each employee receives a reward in direct proportion to their contributions) approaches. This business owner leans towards an individualist approach, believing that employees perceive it as fairer. For that same reason, the owner is doubtful of shared ownership structures.

However, the owner feels that too many employees are not "invested" in the business. These tensions were observed among many business owners in this segment: they wanted to encourage ownership over the business, but they believed shared ownership structures would be perceived as unfair and therefore decided to keep their existing system of providing individual rewards.

Shared Ownership's "UVP": The "Purpose-First" Motivation for ESOP Adoption

Ten interviewees—namely, every interviewee with an ESOP—spoke to the meaningfulness of their plans to the owners themselves. Many were approaching or at retirement and wanted to preserve the legacy, culture, and team they had built. An ESOP appeared as the clearest way to achieve that, and they bore the transaction fees as a high but necessary cost. Building wealth for their employees was important but secondary for many, and leveraging the plan to drive employee performance was commonly seen as a "nice to have." As one interviewee, the CEO of a Colorado-based ESOP defense manufacturing firm with 45 employees, shared:

> "We launched an ESOP in 2016 because we cared about our workforce and culture and did not want to see all of that eroded … But it was very expensive – I think about $300,000 with all the legal fees. We wouldn't have paid that amount if we didn't really want to do this … But even today, our employees don't really understand our ESOP. We are trying. We run monthly town halls where everyone can see the business's financials, and we have an ESOP committee with employees on it … But communicating its value is hard … I can't point to a number that shows performance improvement."

Key takeaways drawn from this segment of interviewees:

The firms with ESOPs reported stable, growing cashflows and a defendable position in a niche part of its industry and/or geographic market. Attesting to the importance of values, business owners in this segment reported that the firm's adoption of employee ownership was enabled by its financial position but motivated by the owner's desire to preserve their business's legacy, culture, and team.

As the above quote illustrates, many business owners in this segment could not clearly quantify the benefit of their shared ownership programs, but they could sometimes point to cases where employees adopted an "ownership mindset" and created value for the firm as a result of their programs. Instead, these business owners reported facing significant ongoing costs to maintain and evolve their plans but often chose not to focus on these expenses since cash was not their primary concern.

Many of the business owners in this segment also believed that participatory management practices like sharing the books with employees and assigning certain decisions to employee-led committees were important to the success of the plan.

As one interviewee shared, "We run a class each quarter where we teach employees about what continuous improvement means—both their role in it and the gains it can generate for everyone. After one session, we had a passionate gentleman on our operations team who came to us with an idea for an automated tool that could save us real money. He gathered the data, proposed a plan, and guided it to implementation. We ended up adding 0.5% to our gross margin."

Despite stories of positive impact like the one above, most of the business owners in this group believed that they underinvested in these practices, and felt their employees did not sufficiently grasp the value of their company's ESOP.

Shared Ownership's "UVP": The View of Sharing Profits & Control as Value Generative

Five interviewees—namely, every interviewee with a profit-sharing plan only—shared that

they launched these plans to motivate value creation by employees and reward them for it. They believed the plan had fostered the team-based culture they sought, and they provided the highest volume of examples of employees changing their behaviors to improve the firm. As one interviewee, the owner of a Michigan-based food services business with roughly 100 employees, shared:

> "Once we were profitable enough, we decided to share some of those profits with employees as a way to engage them … That alone didn't change behaviors. But when we opened the books to employees and connected the dots, they began to understand how tough management decisions were … Like when we had to cut staff hours when sales were low, they got it. No one complained … We eventually saw small shifts in behaviors – reusing materials here, improving customer service there – that added up … and we saw our profit margin grow slowly but surely."

Key takeaways drawn from this segment of interviewees:

The business owners in this segment had stable cashflows but, in contrast to interviewees that had ESOP structures, were often smaller in size, operation, or position in the market.

For business owners in this segment, their adoption of profit-sharing was motivated primarily by the owner's desire to align employer and employee interests around value creation. Unlike owners with ESOPs, their mission or vision was a less reliable motivator for business owners in this segment. Also in contrast to business owners with ESOPs, business owners with only profit-sharing plans often could more easily quantify the benefits, frequently pointing to productivity increases and cost reductions.

Yet, much like ESOP firms, the business owners in this segment reported that the firm faced significant upfront costs to build employee education and engagement tools. Furthermore, as the above example illustrates, many business owners in this segment believed that participatory management practices, particularly educating employees on the books and distributing accountability, were equally, if not more, valuable than profit-sharing in terms of their effects on employee behavior.

Discussion

These research findings reveal the following takeaways:

First, the adoption barriers for the U.S.'s traditional form of employee ownership, ESOPs, appear too high for most small-to-medium size enterprises. The interviews with ESOPs validated what many professionals in the employee ownership community share: the transaction process takes significant time and money, and therefore, the owner must be committed—from their own values rather than maximizing financial value—to complete it. Indeed, all ESOP interviewees remarked that the owner would not have borne the costs if they had been solely profit-driven rather than purpose-driven. The challenge for employee ownership is that most small businesses have neither the time nor financial capacity to prioritize the owner's mission over the firm's margins. Given these structural barriers, what are the alternatives?

As the interviews we conducted demonstrate, firms that used an integrated strategy of profit-sharing plans (PSPs) and participatory management, even without employee ownership, still reported generating financial gains for both the firms and employees and incurred lower adoption costs. The findings on these gains reflect what the academic literature on profit-sharing and high employee involvement suggests: firms with these structures experience higher profit margins, reduced turnover, and greater resiliency to disruptions and downturns (Bellman & Moller, 2010; Graham-Moore & Ross, 1983; Kruse, 1992). Given the array of designs for this shared ownership strategy, however, what design elements are key to success?

These interviewees believed that more of their system's value generation derived from participatory management practices—

financial literacy programs, open book management, and structured employee engagement—rather than from the profit-sharing plan itself. Interviewees saw these practices as forming a holistic system where the flow of information and ideas continuously moved both downwards (e.g., CFO to managers) and upwards (e.g., employees to managers to CEO) in a cadence that aligned teams. This system achieved two positive outcomes from the owner's perspective: (1) it sorted out employees with high disengagement from the business and (2) it rewarded and retained those who did with more the information and influence they had than a traditional management structure would have allowed. In their view, their profit-sharing plan served as an essential "sweetener" to the learning, development, and sense of agency employees acquired through participation in decision-making.

Alongside these benefits, however, there were costs. The clear answer for certain advocates in the shared ownership community may be that such a system does not share actual ownership (Kelly & Kahn, 2022). From this perspective, sharing *a portion* of profits and control at the employer's discretion may reinforce, rather than alter, traditional employer-employee arrangements that may mistreat workers. All interviewees with this profit-sharing (vs. ESOP) system, however, noted how manager-employee dynamics had changed post-adoption: workers acquired more managerial skills, thinking, and agency; managers gained greater trust in employees' work product and ideas; and the firm shifted away from less productive "command and control" approaches. Moreover, some interviewees were exploring an employee ownership transition in the future, given the benefits they had observed from sharing profits and decision-making.

There are also market-based concerns to this approach. The upfront costs of implementing this system of shared profits and participation are significant, and the system's unique value proposition is difficult to articulate given its complexity relative to more popular employee incentives (e.g., end-of-year bonuses). On differentiation, interviewees distinguished their system from other incentives in its value creation via enhanced *team* dynamics rather than motivating *individual* star players. Contrary to concerns that individual employees may resent coworkers if a team-based goal is not achieved, stories from firms with this system revealed how their system promoted cross-employee accountability, collaboration, and innovation.

An example is an interviewed business owner that operated five auto body shops, four of which were profitable and one that was not. The owner considered a shop-specific profit-share system to reward the profitable shops and penalize the underperformers. Instead, the team agreed to a firm-wide gain-sharing system after one manager asked, "*Isn't the point of this plan that we're all in this together?*" The managers of the four profitable shops lent best practices and mentorship to the underperforming manager, who then optimized the shop's work processes and achieved profitability the next quarter. Interviews with other businesses revealed many stories like this. Distilling the message and meaning of these stories can help differentiate the system from individual employee incentives that can fail to realize the value generated from team collaboration rather than individual performance (Calinog, n.d). Part of the "sell" of this system can further be how quickly financial results appear: taking the example of the above firm, increased profit margins (via efficiency gains) and higher employee compensation (via profit-sharing) appeared within three months of the system's adoption.

Lastly, even if a business owner agrees that this system offers a unique value proposition they seek, the time and money barriers referenced in our findings remain. Every interviewee with shared profits and control practices had built their programs in-house, costing significant money and time since such program development was not a core competency of the firm. Service providers can fill this gap by providing business owners with three key resources to build and sustain this system:

Template Models for Profit-Sharing Plan Design

Every interviewed business with a profit-sharing plan had developed it in-house or with the support of a lawyer based on the owner's personal judgment call. An illustrative example is one owner who said, "We bet we had capacity to share 5% of net profits with employees so we did." Sufficient case studies exist, however, to highlight guidelines and guardrails that many interviewees were unaware of. Service providers could reduce the uncertainty, barriers, and costs around profit-sharing plan design by developing a template model that translates business inputs (e.g., profit margins, people KPIs, number of employees, and financial targets) into plan outputs (e.g., a range for the firm-performance-to-employee-payout ratio that is both sustainable for the firm and meaningful for employees).

A White-Label Employee Financial Literacy Program

Every interviewed business owner with a financial literacy program had built it in-house. Small and large businesses alike had invested significant time in building these programs, so for small firms, the marginal expense of this buildout was high. Even for large business interviewees with better-resourced education programs, most felt their program was lacking. A white-label financial literacy program, built on best practices in learning design and customizable to a business's operation, may help reduce these costs and improve learning and business outcomes.

Data and Communication Tools for Open Book Management

Certain large businesses interviewed had developed sophisticated data and communication systems to ensure employees understood how the firm was performing, their role in improving performance, and what profit-share they could expect. Most, however, acknowledged that employees saw this data once or twice a year and did not know how to engage with it. Creating a simple data dashboard and "playbook" for firms to make their business data real, meaningful, and actionable for employees could help many increase their employees' level of engagement and motivation.

Conclusion

Significant barriers to adopting employee ownership in the U.S. exist at the firm level. We build and extend existing research on this topic by showing that within the context of small businesses, these barriers are especially high and appear as constraints to the time, money, and skills of their owners. Even with the growing number of programs that offset costs and provide technical assistance for employee ownership, two structural barriers remain for most SMBs to use such programs: inadequate cash flows and/or insufficient time or skills to manage a legal and capital restructuring of their business.

As a potential solution for SMBs, this paper provides evidence that a purely operational system for shared ownership—cash-based profit-sharing plans and participatory management systems—could entail lower adoption costs and result in similar financial gains to employee-owned firms. This system differentiates itself from employee ownership in its shorter time horizon for implementation and impact and from more common incentive plans in its team-centered design, creating value via the exchange of ideas and alignment of employee actions in the firm. Yet, adopting this system still entails three activities—plan design, employee financial literacy, and high employee participation—that most small businesses lack the in-house resources to develop. We believe that service providers can fill this gap by translating existing best practices for each component into "off-the-shelf" products that minimize management burden, maximize employee learning and development, and communicate the value of the plan to owners and employees.

Appendix

Table A1. SMB Owner Interview Questions.

Category	Question
About the business	What industry do you operate in?
	How many years have you been in operation?
	What products or services do you offer?
	What does your customer base look like?
	What differentiates your offerings from your competitors?
	What has your business's trajectory looked like?
	Do you consider your business financially solid and successful?
	What does success look like for your business?
	How do you measure success?
	What are your business's current priorities?
	What are the biggest risks to your business?
About the workforce	How many employees do you have?
	How do their compensation and benefits compare within your industry?
	How would you assess employee retention?
	How would you assess employee engagement?
	What distinguishes a successful employee? What do they do?
	How many of your employees exhibit those behaviors?
	How would you define the workplace culture you want to see?
	How would you assess the present culture against your desired culture?
	What are your biggest concerns with your workforce?
About shared ownership structures, if the business has adopted one	Have you put in place any plans that share profits or equity with your employees?
	How would assess the process of the plan's adoption?
	What resources did you use to set up the plan?
	What were the barriers and pain points in the adoption process?
	What were the lessons learned when going through the process?
	Since adoption, have you learned any best practices with its administration or management?
	How well do employees understand the plan and its value for them?
	How well do employees understand how their work connects to the business's goals and measurements of success?
	Do you share information about the business, such as its profits or equity value, with employees?
	Do you educate employees on how the business's financial success connects to the plan's financial rewards?
	Do you complement this plan with any other employee incentive or reward initiatives?

(continued)

Table A1. (continued)

Category	Question
About shared ownership structures, if the business has not adopted one	Have you heard of and/or considered plans that share profits or equity with employees? Would such a plan be feasible for your business? If not, why is it not feasible? What barriers do you see? Would such a plan be meaningful and motivational to employees? Do you use other employee incentive or reward plans? Are these plans effective for driving employee retention or motivation? Are these plans "good enough" in terms of driving positive employee behaviors?

Acknowledgments

We would like to thank the following individuals and organizations for making this research possible: Drs. Joseph Blasi and Douglas Kruse of Rutgers University for their wealth of research on shared ownership; the Colorado Employee Ownership Office and Rocky Mountain Employee Ownership Center for their connections to business interviewees; and to the many professionals in the shared ownership space—particularly Chris Mackin, Thomas Dudley, Jason Weiner, and Allie Clark—for providing expertise on its changing landscape.

Declaration of Conflicting Interests

The author(s) declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

Funding

The author(s) received no financial support for the research, authorship, and/or publication of this article.

Ethical Statement

Ethical Approval

We have checked the manuscript submission guidelines and complied with all specific policy requirements specified.

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Data Availability Statement

Qualitative data collected from research interviews is available upon request.

Notes

1. For those structures where control is labeled "discretionary," this means that employees have no legal or contractual right to participate in business decisions; rather, it is at the owner's discretion to allow such participation. This arrangement contrasts with cooperatives where governance documents provide each worker-owner one vote in such business decisions as capital investments.
2. These amounts do not include potential legal expenses if the U.S. Department of Labor files a case against the ESOP for issues related to the ESOP's valuation.
3. An exception to this point are stock options, which are complex to effectively design and administer but do not necessarily extend ownership or control privileges to a broad base of employees.

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