STRATEGY

EMPLOYEE OWNERSHIP PLANS

When employees have skin in the game

Flynn Canada went from a family-owned business to one that gave employees a stake. Here's why the move can work for companies

MARJO JOHNE

'If you had told me 10 years ago that Flynn would have 57 owners some day, I would have said, 'No way,' " says Doug Flynn, president and CEO of Flynn Canada, a Toronto-based trade contractor that makes and installs the outer layers of buildings, known as the building envelope. "But now, looking over the last 10 years, I'm thoroughly convinced that we couldn't have grown the way we have if we didn't have our equity program."

Over the past three decades, the company that began as a local roofing contractor in Winnipeg has grown into a multi-million-dollar, national operation with more than 3,000 employees in 17 locations across Canada.

There's something else that has spawned into multiples at Flynn: its owners. The business that once belonged wholly to the Flynn family is now owned by 57 of its key managers, including Mr. Flynn.

Flynn is among the small group of companies in Canada that give their workers a financial stake in the business through employee share ownership programs. Carol Beatty, a senior research fellow at the Industrial Relations Centre at Queen's University in Kingston, Ont., says various studies show 7 to 10 per cent of Canadian workers participate in some form of employee ownership.

By comparison, more than 17 per cent of American workers own stock where they work, according to Employee Ownership Foundation in Washington, D.C.

Ken Tencer, CEO of SpyderWorks, a Toronto company that provides strategic consulting and design services, agrees that employee ownership tends to be off-radar for many companies. He often sees business owners nearing retirement overlook their employees when scouting for someone to take over the company, he says.

"They tend to look for suitors from the outside, and too many times new owners come in, fire a lot of key individuals, break a lot of relationships, and the value of the business is lost," he says. "Whereas with the right group of employee owners, you have people who are already engaged in the business and are motivated to remain innovative and mind the business."

While employee ownership isn't for everyone, companies considering it will find plenty of evidence in favour of giving workers a piece of the business.

Various studies here and abroad suggest benefits include financial outperformance, employee job satisfaction and worker loyalty, compared with public companies without employee ownership programs.

But there are some steps companies need to take to make sure employee ownership works for them, says Perry Phillips, a chartered accountant and president of ESOP Builders Inc., a Toronto consulting firm that helps companies set up share purchase programs.

"No. 1, you have to clearly identify what the transition goals of the owners are. "Some may want to sell now, some may want to retire, some may want to continue the legacy of the business, some may want their money."

As well, identify whether you want to offer a form of ownership to key people or to everybody, Mr. Phillips adds. "There are three different building blocks you can use for a plan: an ESOP [Employee Stock Ownership Plan], stock options, or phantom plans. You can use one, two or all of them. You can choose to use one for executives and another for employee owners."

He suggests getting a good feel for what qualities prospective employee owners bring, going so far as to use psychological testing in this process.

"Once you've decided everyone's onside, you have to educate people what are the rights and responsibilities of owners and what are the rights and responsibilities of employees," Mr. Phillips says. "I've never seen a bad employee join a plan but I've seen a bad plan ruin a good employee. It's very important to get the plan right."

Ms. Beatty agrees. She recalls working with one company where employee owners were calling meetings each week to make decisions without involving senior managers.

"It paralyzed the company," says Ms. Beatty. "Senior managers soon realized that they needed to set up a protocol outlining which decisions should be made with the input of employees and which should be left to management."

Mr. Phillips notes that privately held companies tend to be reticent about disclosing too much financial information.

But for employee ownership to work, there needs to be trust – and full disclosure of financial results, says Mr. Phillips, author of *Employee Share Ownership Plans: How to design and implement an ESOP in Canada.* Employee-owned companies should also ensure their worker owners are financially literate and can actually make sense of the entries on a balance sheet.

"The more information you disclose and the more you teach people to understand all the main ratios that create value for the company – such gross margins, inventory turnover and accounts receivable – the easier it will be for your employees to come up with great ideas that will create even more value for the business," says Mr. Phillips. "That's where you start to see the magic."

Special to The Globe and Mail

Doug Flynn (centre), president and CEO of Flynn Canada, with service technicians (left to right) Frank Demorais, Ludovico Mazzucco, Helder Rodrigues and Carlos Pereira in Toronto. DELLA ROLLINS FOR THE GLOBE AND MAIL

MAKING IT WORK

- » **Let owners think like owners.** Let employee owners know you're open to any ideas they might have to improve the business.
- » **But set some boundaries.** Make sure your employee share agreement clearly defines owners' roles and sets rules for decision-making.
- » **Choose wisely.** Companies where ownership is by invitation should do thorough checks to make sure they choose the right employee owners.
- » **Be generous with information.** Schedule regular meetings to go over the company's financial results and take the time to explain what the numbers mean.

Marjo Johne