

# Why Are Employee Stock Ownership Plans (ESOPs) Prevalent in Manufacturing and Construction Industries?

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Two of the most common industries to have established ESOPs are construction and manufacturing, combining to make up 35 percent of the 1,600 companies represented by the ESOP Association. Both industries have unique characteristics that create a receptive environment for these employee ownership plans. The following commentary details those characteristics and their role in successful employee ownership adoption.

## **Manufacturing**

### Financial Advantages – Seller Inspired

Manufacturing companies' balance sheets often show wealth of both tangible and intangible assets. Through ESOP transactions, these companies are able to sell their shares close to their book values; as buyers are typically not willing to pay for the amount, this objective can be largely achieved by employing ESOPs.

### Corporate Culture

As manufacturing organizations are prone to have longer history of well-established organizations, there also tends to be consistency and homogeneity of view within their corporate cultures. Thus, ESOPs are more easily accepted by employees in a way that allows each of them to have a personal stake in the future of the company and collectively move the company forward by preserving its culture.

### Motivational Tool

Manufacturing businesses, trying to produce larger quantity with minimal cost, particularly need to implement effective ways to motivate their employees because they are the ones actually producing goods. As ESOPs provide the long-term benefits to all participating employees as stockowners, they act as a great motivation tool by facilitating ownership culture. Additionally, by applying ESOPs, it contributes to lowering turnover rate; this is especially significant for manufacturing businesses because certain lines of business require particular skills and hiring qualified employees could be costly.

### Entrepreneurial Mentality

As manufacturing companies apply Six Sigma to improve the quality of output of process, they tend to incorporate bottom-up approach; this mechanism helps foster employees' entrepreneurial mentality in a way that requires each of them to have critical thinking skills and innovative mindsets.

As ESOPs offer the benefits of stock ownership to participating employees, these employees receive independent credit, with which they hold responsibilities and certain stakes of the company's performance and growth. Consequently, ESOPs not only promote entrepreneurial attitude they already exhibit, but also facilitate them to contribute to the corporation by leveraging the characteristics.

## **Construction**

### Union History

Construction workers come from a long history of unionized labor. Their desire to belong to an organization that prioritizes their working conditions, compensation, and sense of purpose organically transfers into the establishment of an ESOP. In a sense, construction companies that implement employee ownership plans are establishing their own unions where the employees can feel that their goals are aligned with those of the company, overall creating a more cohesive work environment and a more successful enterprise.

### Autonomous Nature of Work

Construction work is modular at its core, and requires decisions to be made without going through a central chain of command. Foremen and managers must be bred in a way that makes them comfortable making these decisions autonomously. Creating an environment where they have a stake in the future of the company is the perfect way to do so, as it encourages them to make decisions with both their own best interests and the companies best interests in mind.

### Organic Growth

As an industry, construction companies tend to grow through organic methods. There are rarely financing rounds to fund construction companies, and more often than not growth is funded internally from past earnings. This trend facilitates the implementation of ESOPs because of the resulting capital structure. There generally aren't numerous shareholders in these companies. After following a path of organic growth, there is usually a primary shareholder who needs to consider an exit strategy at some point, which is where an ESOP would be beneficial.

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