EO Know how

Your weekly blog on all things EO
with Barry Horner

Episode 14 | Series 1

How do you strike the correct balance between Stake and Soul?

That is the central, defining challenge of every successful employee-owned business.

The balance isn't static, but rather it requires continuous, conscious alignment. You strike the balance by ensuring the systems that deliver the 'Stake' (the reward) are governed by the culture that defines the 'Soul' (the culture, voice and purpose).

Striking the Balance: Stake and Soul Alignment

The balance between 'Stake & Soul' is achieved through integration, not separation.

1. Integrate Influence into Financial Decisions (Connecting Soul to Stake)

The biggest failure in many employee-owned companies is letting the finance team decide the profit split behind closed doors. To strike the balance, the mechanism for distributing the 'Stake' must be influenced by the 'Soul'.

The people who decide the annual profit allocation must include individuals appointed to represent the wider employee owner perspective. This ensures that the financial decisions are viewed not just through a fiduciary lens, but also a cultural one.

The annual decision on how much profit goes to pay off the vendor debt, how much is allocated to reserves, and the bonus allocation must be explained clearly by the CFO or CEO to the Trust Board/Partner before it's ratified. This doesn't mean employees vote on the budget, but they do appreciate and understand the rationale and trade-offs.

Example: "We are retaining 30% of the profits in the business this year and slightly reducing the employee owner profit share and vendor debt repayment, because the business has highlighted the need for a new IT system to improve efficiency and we collectively believe this to be an important and critical investment in the future." (Linking investment to employee feedback.)

2. Tie the Stake to Owner-Mindset (Connecting Stake to Soul)

The financial reward must reinforce the culture of shared accountability, not just entitlement.

- **The importance of communicating the 'Why'.** Never let the EOT bonus be treated as an expected 13th-month salary payment. When the bonus is paid, the communication must explicitly link the size of the payment to collective measurable achievements (e.g., The team's overall success in achieving X directly led to a higher profit margin and this £... payment.)
- While some employee-owned businesses use a salary-pro-rata split, often a more equal or capped allocation model is used. This reinforces the 'Soul' - the belief that everyone's effort contributes equally to the business success - even if their pay rates differ. This counteracts the potential distortion of the base remuneration structure.

3. Use Governance to Protect Both (Protecting the Contract)

The EOT structure itself must be the guardian of both principles.

EOT Trustees act as the 'Balance Keeper'. The Trustee Board's primary role is of course to ensure the company is run in the long-term best interests of the beneficiaries (The employee owners). This means they must actively ensure two things.

- The ‘Stake’ is preserved (e.g., ensuring the board is not over-leveraging debt).
- The ‘Soul’ is maintained (e.g., ensuring employee voice mechanisms are active and effective, and the company culture reflects ownership).

The ‘Mission Lock’. The Trust Deed often locks in a core purpose. This guarantees that even if future leadership changes, the company cannot legally abandon its ‘Soul’ in pursuit of pure financial ‘Stake’.

The balance is struck when every employee owner feels:

“Because I have a financial ‘Stake’, I have a voice (Soul), and because I have a voice, the financial decisions reflect my long-term interest (Stake).”

For more information or to discuss anything in this latest Know-How;
Contact **Barry Horner** at bhorner@pnfp.co.uk.