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A top KKR exec explains how giving stock to hourly workers at its portfolio companies has increased retention and productivity

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- **KKR exec Pete Stavros' dad was an hourly worker, inspiring him to research employee stock ownership.**
- **KKR said giving stock to portfolio company employees increases engagement and reduces turnover.**
- **Stavros made these comments at a virtual event hosted by Goldman Sachs' Ayco last Wednesday.**

KKR's co-head of Americas private equity, Pete Stavros, is familiar with the challenges low-income hourly workers face. Now, he thinks he's found an effective solution by granting these workers shares in the companies that employ them.

Stavros' father was an hourly construction worker in Chicago for 45 years. Stavros said his father's job helped him understand the challenges of working "at direct odds with your employer." Employees want to maximize their compensation, against the will of employers seeking to keep workers' paid time low, Stavros said.

Since 2011, KKR has implemented its "employee engagement model" in all its Americas industrials portfolio companies, a division Stavros led at KKR from 2005 to 2019, when he was promoted to co-head Americas private equity. The model grants hourly wage workers shares of ownership in their employer.

If the company performs well, the workers may be paid a portion of its profits in the form of dividends, and can earn cash when KKR eventually sells the company.

Stavros said the model, which also features employee training programs, has significantly improved employee productivity and retention, the latter of which is especially important as manufacturing companies across the US struggle to hire enough workers.

Speaking at a virtual event hosted by Goldman Sachs' Ayco division on Wednesday, Stavros said KKR started "experimenting" with employee stock ownership 11 years ago to mitigate high turnover at some of its portfolio companies.

PHOTO SUPPLIED BY KKR

Pete Stavros

Stavros, who has spent decades advocating for broad-based stock ownership, said he had wanted to try implementing it in KKR's portfolio for years. KKR first granted employees stock at drug manufacturer Capsugel in 2011, after which recordable safety-related incidents dropped by 56%, and the days away case rate went down by 55% over the six years KKR owned it, according to a fact sheet on the program a KKR spokesperson shared with Insider.

Four years later, Stavros was back in Illinois, leading the acquisition of garage-door manufacturer C.H.I. Overhead Doors. When KKR first bought the business, he said absenteeism and turnover were rampant, so the firm implemented its employee engagement program once again.

Employees received their first dividend as stockholders, amounting to $1,300 to $4,000 per person. Afterward, Stavros said, employee participation in a survey administered to gauge engagement jumped to 90% from 30%.

Since then, the average compensation per employee at C.H.I. from dividends has been about $10,000 per hourly colleague, according to Stavros.

Stavros said the program successfully reduced employee turnover, though he did not provide specific numbers. While it's not a "magic solution" to any problem, Stavros said, employee stock ownership "can be the foundation for culture-building."

In a video shown during the event, an employee detailed how the grants changed some workers' lives. She said the dividend enabled one employee, a single mother of two, to buy a new car for the first time. Another employee, she said, finally took her husband on a honeymoon.

For KKR, the focus on employee stock ownership has proven to be a differentiator from other private equity firms.

Stavros said some leaders at KKR feel that the program is the "most meaningful thing" they've done in their careers, leading hourly employees to "dignified retirement and real wealth creation."

"It's become a recruiting advantage, and a real source of mission and purpose inside of the company for the leadership team," he said.

Stavros, meanwhile, is launching The Center for Shared Ownership this summer, a nonprofit which he and his wife plan to contribute $10 million of their savings. The nonprofit will conduct research on outcomes driven by employee stock ownership.