

Employees Matter:

Maximizing Company Value Through Workforce Engagement

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LEGAL DISCLAIMER

This report includes an analysis of various types of employee benefits and equity compensation tools and how they may be applied. This report, however, is not intended as, nor does it constitute, legal, benefits, or tax advice. Before implementing the tools and strategies described in this report, you should consult a lawyer, tax advisor, or professional benefits consultant to determine how the use of any of these tools or strategies will affect your company and employees.



The SJF Institute connects, inspires and accelerates sustainable entrepreneurs and the fields that support them. We empower companies that provide green solutions and build workplaces where employees can grow and thrive. We work with foundations, corporations and investors who believe in the power of entrepreneurship to change the world for the better.

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PROLOGUE

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As I sit at my desk and write this, there is a great deal of buzz around the offices of Zappos.com Inc. in regard to our recent book *Delivering Happiness: A Path to Profits, Passion, and Purpose*, by Zappos.com CEO Tony Hsieh (there is even a giant *Delivering Happiness* book that people can sign). We truly are a happy group of individuals here in Henderson, NV; in fact, we have often called our offices here “the other happiest place on earth” (next to Walt Disney World).

When the idea of “delivering happiness” was first presented to the employees, there were some questions about exactly what that meant and how we would know if we were truly there. But it didn’t take long for the employees to rally behind the charge and make this a reality in everything that we do. A simple walk through our offices and you will see hundreds of smiling faces. Were you able to listen to the phone calls that are handled in our contact center, you would hear thousands of happy customers.

How did Zappos.com make delivering happiness an integral element of our company culture?

A great deal of recognition has been given to the great service that we provide our customers. While customer service is very important to the Zappos Family businesses, it is not the key focus. At Zappos, the employee truly comes first and this is evidenced in many ways: complimentary lunches, happy hours and team building, amazing medical and dental benefits, classes for improvement and leadership development, and many more.

Our engaged culture is driven by our 10 consistently communicated core values:

- Deliver WOW Through Service
- Embrace and Drive Change
- Create Fun and a Little Weirdness
- Be Adventurous, Creative, and Open-Minded
- Pursue Growth and Learning
- Build Open and Honest Relationships With Communication
- Build a Positive Team and Family Spirit
- Do More With Less
- Be Passionate and Determined
- Be Humble

By allowing the core values to guide every decision, the employees and leadership at Zappos are freed to go beyond the confines of policies and procedures and instead be creative in their approach to delivering outstanding customer service. An adage driving our recruiting efforts is to “hire slowly and fire quickly” to ensure that all employees fit our unique company culture; it costs less to keep great employees than it does to hire and train new people.

The importance of creating a strong culture of employee engagement cannot be understated, although it requires effort and commitment from leadership. I will work harder and more effectively for a company that cares for me and my well being than for one that only sees me as a means to an end, and I think this is true for all employees. SJF Institute’s *Employees Matter* report is full of useful strategies that can help your company build that kind of engaged culture. I hope you will read it and share it broadly.

– *Donovan Roberson, Culture Evangelist for Zappos Insights*

EXECUTIVE SUMMARY

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I. Introduction

Increasing numbers of businesses view their employees not as a mere cost but as invaluable contributors for business success. These firms are implementing strategies to fully engage employees at all levels. The *Employees Matter* report identifies sixteen fast growing entrepreneurial firms that employ employee ownership and engagement strategies which they perceive as directly correlated with improved business performance. Eight other notable companies with key lessons to share are included as sidebar profiles.

Ten strategies around employee engagement emerged from the profiles of these 24 companies. The *Employees Matter* report includes a detailed discussion of these strategies and the business results at these firms, as well as additional resources for entrepreneurial firms wishing to increase employee engagement.

Employees Matter is designed for entrepreneurs and investors, as well as those allied to the field such as business support organizations. Entrepreneurs will have the opportunity to learn from the fast growing private businesses profiled in the report about human resource practices that have been successful, as well as a few lessons learned and pitfalls to avoid. Investors may particularly note the seven firms profiled in the report that are venture-backed and have used employee engagement practices for increased business success.

II. Top 10 Employee Engagement Strategies

A lack of deliberate attention paid to company culture can have detrimental results. Yale School of Management professor James Baron studied several hundred startups in Silicon Valley from the mid-1990s until 2002. He found that it is much easier to get the culture and human resources blueprint right the first time than to go back and try to change it later, and that firms that established a strong culture from the beginning had a greater chance of long term survival. Baron also noted that firms that had a culture of engaging all employees (which he called “commitment” firms) performed better over the long haul than those that focused rewards on a few star employees at the expense of the rank and file (“star” firms)¹.

The companies interviewed for *Employees Matter* all feature effective workplace cultures that reinforce each company’s commitment to its employees and employees’ commitment to the companies. In the course of the *Employees Matter* interviews, ten strategies for creating a successful

culture of employee engagement emerged. These are grouped into three themes:

Human Resource Practices

1. **High involvement hiring** – carefully choosing employees that not only have the right skills but also are a long term fit with the company’s culture
2. **Provision of strong employee benefits** – providing comprehensive benefits and a flexible work environment
3. **Extensive training and promotion from within** – investing in employees to build their skills and enabling them to take on increased responsibility over time

Culture Formation

4. **Fostering a culture of mutual respect and trust** – consistently treating all employees with respect yields long term loyalty and may be valued over rewards
5. **Celebrating success** – engaged teams work hard and spend time celebrating together when milestones large and small are achieved
6. **Communicating the company’s core values clearly and consistently** – maintaining the company culture by ensuring the core values are frequently heard and understood by all

Broad-Based Involvement and Ownership

7. **Sharing key success metrics** – sharing the metrics that are critical to the company’s financial success broadly with employees and articulating those that employees affect daily
8. **Employee Participation** – making sure all employees have a say over how work is done and have some degree of autonomy
9. **Performance-Based Rewards and Compensation** – tying rewards such as bonuses to achieving company metrics or to increased efficiencies
10. **Sharing ownership broadly** via stock options, restricted stock, ESOPs, or co-ops

Chapter One provides more detail on these strategies and how they are employed by the companies profiled in the report.

III. Employee Engagement Results

All of the companies profiled for *Employees Matter* have low employee turnover, a significant cost savings (the total cost to replace one employee ranges from 50% to 200% of that employee’s annual salary, according to the Society of Human Resources Management²). They all have very high customer satisfaction rates and strong year-to-year customer retention. And ten of them

describe ways that employee engagement practices directly helped them survive and sometimes even thrive during the recession. These business results are the focus of Chapter Two.

IV. A Strategy for All Private Companies

The firms profiled for *Employees Matter* represent a range of sectors and geographies across the United States, including consumer products, manufacturing, professional services, renewable grid and infrastructure technologies, design/build services, retail, and waste remediation. This suggests that geography and sector are not barriers to engagement. But two key questions are whether engagement strategies work with employees at all skill levels, and also how to scale employee engagement practices with company growth. These themes, as well as conclusions, are the focus of Chapter Three.

V. Resources

The appendices include resources related to employee ownership and engagement and broad-based employee incentive arrangements that may be useful to companies wishing to implement these practices.

INTRODUCTION

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In recent years, the link between responsible business practices and competitive advantage has become increasingly clear. Successful profit-seeking firms that produce positive social and environmental outcomes have grown in number and acclaim. This growth in social ventures is meaningful and exciting, promising to promote greater economic opportunity for people at all economic levels as well as better stewardship of the world's scarce resources – while proving that firms can indeed do well by doing good.

Although in the vast majority of businesses and at many business schools employees are still viewed merely as a cost, increasing numbers of businesses are taking a different approach. The *Employees Matter* report profiles 24 fast-growing entrepreneurial companies that clearly perceive a link between employee ownership and engagement strategies and improved business performance, including an improved ability to weather economic downturns.

Others are addressing this important subject as well. A book released in May 2010, *Profit at the Bottom of the Ladder: Creating Value By Investing in Your Workforce*, written by Jody Heymann and published by the Harvard Business Press, seeks to dispel the commonly held assumption that lower level employees are replaceable and do not add value to the company's performance. The study found that the opposite is true: investments in employees at the bottom of the ladder can lead to positive business outcomes in times of both economic growth and recession. Heymann's research also points out that the old practices on Wall Street – rewarding companies that cut wages, jobs and benefits – are now being rethought by both investors and policymakers. And the book identifies the need for more and better evaluation and reporting on firms that make long term investments in their employees. The *Employees Matter* report highlights a number of such firms and details winning workforce strategies that other private companies can employ.

The companies profiled in *Employees Matter* track specific financial and workforce performance goals and use these numbers to motivate employees. Many of these companies effectively encourage broad-based employee participation. Some share profits; others share equity. All of the CEOs and human resource executives interviewed could trace a clear connection between these practices and better bottom line business performance.

The *Employees Matter* report is designed for entrepreneurs and investors, as well as those allied to the field such as business support organizations. Entrepreneurs will have the opportunity to

learn from the fast growing private businesses profiled in the report about human resource practices that have been successful, as well as a few lessons learned and pitfalls to avoid. Investors may particularly note the seven firms profiled in the report that are venture-backed and have used employee engagement practices for increased business success.

Building on *Beyond Paycheck-to-Paycheck*

In 2004, SJF Institute published *Beyond Paycheck-to-Paycheck: Wealth-Building Strategies for Venture Capital Funds to Use with Portfolio Companies and Their Employees*. The report documented employee asset building and engagement tools and strategies to generate employee and company gains. The report focused on community development venture capital funds, which funded companies creating quality jobs for low to moderate income (LMI) employees – jobs that included good pay and benefits, opportunities for training and advancement, and some form of asset building such as broad-based stock options, Employee Stock Ownership Plans (ESOPs), Individual Development Accounts (IDAs), retirement plans, profit sharing, or bonuses.

Because venture capital funds must exit their investments via initial public offering (IPO) or company sale in order to realize a return, a key question was what happened to those employees after fund exit. After interviewing 19 funds and nine companies it was found that these investments had value partly due to their well-trained, engaged workforce cultures, and therefore acquiring companies often continued to run the businesses in the same locations without significant job loss. And there were examples of employees at all levels that gained from company sale along with management and investors via broad-based stock options, some of whom were able to move beyond living from paycheck to paycheck.

SJF received significant positive feedback on the usefulness of the *Beyond Paycheck-to-Paycheck* report as a guide to asset building and employee engagement strategies. With increasing interest in employee ownership and engagement, the time was right to explore these strategies. The *Employees Matter* report has three primary components:

- Case studies of 16 fast growing entrepreneurial firms that employ employee asset building and engagement strategies and correlate them with improved business performance. Eight other notable companies with key lessons to share are included as sidebar profiles.
- A detailed discussion of the top 10 employee engagement strategies used by the companies profiled, the business results at these firms, and a discussion of applying these

strategies with employees at all levels and at fast-growing companies.

- Recommendations and resources for entrepreneurial firms wishing to implement employee engagement strategies.

Methodology

Phone interviews were conducted with the 16 companies profiled for the *Employees Matter* report. These interviews included questions about hiring practices, turnover, company culture, training, compensation, and communication (see complete list of questions in Appendix C). A combination of public sources and phone interviews were used for the eight shorter profiles. The selection criteria for the 16 full profiles was fast growing private companies that could in some way correlate their outstanding growth and performance to their strong employee culture and employee engagement strategies ranging from open book management to broad-based equity sharing. Each of the eight shorter profiles illustrates a key point, such as how to scale employee engagement practices as companies grow.

Firms were identified from a variety of sources, including the portfolio of SJF Ventures, an affiliated venture capital fund, and the portfolios of other impact investing funds. Other sources were the Inner City 100 from the past five years, Business Journal Best Place to Work Winners in a variety of geographies, members of the National Center for Employee Ownership, Winning Workplaces awardees, and certified B Corporations.

The Top 10 Employee Engagement Strategies

Most business founders do not set out to create unengaged company cultures. But a lack of deliberate attention paid to culture can have detrimental results. Yale School of Management professor James Baron studied several hundred startups in Silicon Valley from the mid-1990s until 2002. He found that it is much easier to get the culture and human resources blueprint right the first time than to go back and try to change it later, and that firms that established a strong culture from the beginning had a greater chance of long term survival. Baron also noted that firms that had a culture of engaging all employees (which he called “commitment” firms) performed better over the long haul than those that focused rewards on a few star employees at the expense of the rank and file (“star” firms).³

The companies interviewed for *Employees Matter* all feature effective workplace cultures that reinforce each company’s commitment to its employees and employees’ commitment to the companies. The companies profiled in *Employees Matter* represent a range of sectors and geographies across the United States, including consumer products, manufacturing, professional services, renewable grid and infrastructure technologies, design/build services, retail, and waste remediation. Six firms are based in the Northeast, five on the West Coast, seven in the Midwest, five in the Southeast, and one in the Northwest.

Profiled companies range from 50 to 3,500 employees (5,727 in aggregate; an average of 148 when Ryla, employing 3,500+, is not included) and have average revenues of \$35 million (aggregate of \$474.3 million). Seven are venture backed, and all but three have entry-level employees. Chart One provides summary information on the 16 profiled firms. In addition, eight other notable companies with key lessons to share are included as sidebar profiles.

SUMMARY OF THE 16 COMPANIES PROFILED

COMPANY NAME & LOCATION	No. of EEs	LMI/ENTRY LEVEL	OWNERSHIP AND ENGAGEMENT TOOLS	VC BACKED	2009 REVENUES	BUSINESS RESULTS
ADVANCED CIRCUITS AURORA, CA	400	Yes	Profit sharing; tri-annual and goal oriented bonuses; open book management; high involvement hiring; teams and frequent huddles; company-wide meetings and celebrations; generous benefits including company-matched 401K	No I	\$52 MM	Most profitable firm in its industry; low employee turnover; high customer satisfaction and retention; no layoffs during the recession
ATA ENGINEERING SAN DIEGO, CA	91	No	ESOP; broad-based stock options and bonuses; open book management; consensus decision making; high involvement hiring; strong benefits	No	\$18 MM	Low employee turnover; high customer satisfaction and retention; strong financial performance
BETTER WORLD BOOKS GOSHEN, MISHAWAKA, IN ALPHARETTA, GA EDINBURGH	300	Yes	Broad based stock options for both employees and nonprofit partners; bonuses for employees; comprehensive benefits; detailed quarterly updates provided to all employees; engagement surveys	Yes	\$45 MM	Low employee turnover; increased profitability during economic downturn
CLEANSCAPES SEATTLE, WA	263	Yes	Generous benefits including 401K; promotion from within; open book management; clearly communicated success metrics; teams and huddles; company-wide meetings and celebrations	Yes	\$50 MM	Low employee turnover; exceptionally fast growth; high customer satisfaction and retention; increased safety
DANCING DEER BAKING COMPANY HYDE PARK, MA	75	Yes	Broad based stock options; open book management; promotion from within; strong communication at all levels; HR director part of executive management team; full time benefits at 24 hours/week	Yes	N/A	Low employee turnover; strong customer retention; better results during economic downturn
FULL SAIL BREWING COMPANY HOOD RIVER, OR	90	Yes	ESOP; open book management; performance-based bonuses; high involvement hiring; promotion from within; clear communication, encouraging responsibility and decision making at all levels; HR director part of executive management team; culture of respect and trust; matching 401K	No II	N/A	Low employee turnover; lifelong customers; increased profitability during economic downturn

SUMMARY OF THE 16 COMPANIES PROFILED

COMPANY NAME & LOCATION	No. of EEs	LMI/ENTRY LEVEL	OWNERSHIP AND ENGAGEMENT TOOLS	VC BACKED	2009 REVENUES	BUSINESS RESULTS
GROSOLAR WHITE RIVER JUNCTION, VT	207	Yes	Broad based equity sharing for early employees; clear communication; HR Director part of executive management team; flexible work schedules and telecommuting; training; strong benefits; culture of trust and respect; 401K	Yes	\$57 MM	Excellent customer retention; exceptional growth
NAMASTE SOLAR DENVER, CO	70	Yes	Employees purchase restricted stock with full voting rights; high involvement hiring; clear communication; open book management; democratic decision making; culture of respect and trust; community involvement	No III	\$15 MM	Fast growth; low employee turnover; superior customer service and satisfaction
PRINTING FORLESS.COM BOZEMAN, MT	150	Yes	Broad based stock options; performance based bonuses; open book management; clear communication of core values; extensive training; promotion from within; culture of trust and respect; community involvement	No	\$20 MM	Fast growth; lower employee turnover; high customer satisfaction and retention
RED DOOR INTERACTIVE SAN DIEGO, CA	53	Yes	High involvement hiring; training; promotion from within; performance based bonuses; engagement surveys; employee recognition programs; HR Director part of executive management team; culture of trust and respect; community involvement; matched 401K	No	\$10.4 MM	Exceptional year over year growth since founding; below industry average employee turnover; awards for customer satisfaction
RYLA KENNESAW, GA	3,500 +	Yes	Monthly performance bonuses; high involvement hiring; extensive training; promotion from within; employee rewards and recognition; community involvement; culture of trust and respect; clear communication of core values; subsidized meals at onsite café; 401K	Yes	\$101 MM	Exceptional growth; excellent customer satisfaction; outperforms industry in employee tenure
SALVAGE DIRECT TITUSVILLE, PA	145	Yes	Broad based stock options and annual bonuses; promotion from within; strong benefits including 401K; employee rewards and recognition; culture of respect and trust	Yes	\$21 MM	After recent merger, became the third largest company in the salvage vehicle auction industry (behind two public companies)

SUMMARY OF THE 16 COMPANIES PROFILED

COMPANY NAME & LOCATION	No. of EEs	LMI/ ENTRY LEVEL	OWNERSHIP AND ENGAGEMENT TOOLS	VC BACKED	2009 REVENUES	BUSINESS RESULTS
SMARTPAK EQUINE PLYMOUTH, MA	230	Yes	Gain sharing and bonuses; high involvement hiring; extensive training; promotion from within; employee recognition program; matched 401K	Yes	\$63 MM	Fast growth; superior customer retention; outperforms its industry by 5% - 10%
SOUTHERN ENERGY MANAGEMENT MORRISVILLE, NC	78	Yes	Broad based equity sharing; high involvement hiring; HR Director part of executive management team; training; clear communication of core values; culture of empowerment and shared responsibility; matched retirement plan	No	\$6 MM	Excellent customer satisfaction and retention; strong growth; low employee turnover
THE REDWOODS GROUP MORRISVILLE, NC	85	Yes	Profit sharing and bonuses; extensive training; HR Director part of executive management team; clear communication; strong benefits including matched 401K; paid time off to participate in community service	No	\$11.6 MM	Low employee turnover; superior customer retention; outperforming industry peers in profitability
THE SIGNATURE GROUP VIENNA, VA	50	No	Broad-based stock options clearly tied to individual and company performance; comprehensive benefits; ongoing training; core values clearly communicated through the company's "Culture of Excellence"	No	\$10 MM	Low employee turnover; high client retention and satisfaction; strong performance during the recession

^I Company now owned by the Compass Group, a publicly traded private equity firm.

^{II} Full Sail Brewery is an ESOP. The company bought out seed stage investor Reference Capital.

^{III} The majority of employees own restricted stock.

This chapter details the top ten employee engagement strategies identified in the course of the interviews, which the *Employees Matter* firms employ in order to help build engaged cultures. The strategies can be categorized into three thematic groups: human resource practices, culture formation, and broad-based involvement and ownership.

Employee Engagement Themes and Strategies

Human Resource Practices

- High involvement hiring
- Provision of strong employee benefits
- Extensive training and promotion from within

Culture Formation

- Mutual respect and trust
- Celebrating success
- Clearly and consistently communicating core values

Broad-Based Involvement and Ownership

- Sharing key company success metrics
- Employee participation
- Performance-based rewards and compensation
- Broad-based ownership

It is important to note that the employee engagement strategies are often interconnected; for example, #7: Sharing Key Success Metrics and #9: Performance-Based Rewards and Compensation contain overlapping information, as do several other strategies, so reading with this in mind is recommended.

HUMAN RESOURCE PRACTICES

Strategy #1: High Involvement Hiring

The companies profiled for *Employees Matter* view human resources as a key strategic function. Human Resource Directors at six of them (Dancing Deer, Full Sail, groSolar, Red Door Interactive, The Redwoods Group, Southern Energy Management) are members of the executive management team. Human resources is the “way we approach our assets,” sums up Full Sail Brewery CEO Irene Firmat. “The people we hire are one of the biggest investments we make.”

So the first step in creating a highly effective and engaged team is taking the time to carefully choose employees with the right skills and a long term fit with the company’s culture (the “personality” of the company, consisting of shared values and norms). In fact, culture fit was often ranked above skills that an employee could learn later. Many of the companies profiled for this report have some degree of employee ownership, so they think of new hires as long term business partners. Hiring practices used by *Employees Matter* companies include conducting multiple interviews with multiple current employees, and holding separate interviews for skill and culture fit.

At employee-owned engineering consulting firm ATA Engineering, for example, up to 12 current employees might interview a prospective hire. The National Center for Employee Ownership, in a review of the firm, said that “more than any particular management practice this high-involvement hiring process is the key element in ATA’s ownership culture,” creating a very high level of trust.

Similarly, Human Resources Director Shelly Bragg of groSolar – a distributor, installer and integrator of solar energy solutions – interviews potential hires not just to confirm their readiness for the job but to be sure they “absolutely fit with our culture.”

Namaste, an employee-owned solar firm, excels in employee attraction and retention – only three employees have left in five years. CFO Stephen Irvin notes that the hiring process is a long one, where care is taken to hire a long-term partner in the business. “We hire the person and their values, not just the job role,” he says.

Online shoe and clothing retailer Zappos, not interviewed for this report but whose Culture Evangelist Donovan Roberson generously provided the prologue, is known for its strong employee engagement practices and excellent customer service. Zappos CEO Tony Hsieh was recently in-

interviewed by Business Insider on the importance of hiring to fit company culture⁴. Although the temptation for fast growing entrepreneurial firms can be to hire a person with good skills even if they are not a long term culture fit, Hsieh says that doing so has cost his company more than \$100 million when the wrong hire left and had to be replaced. Now Zappos has two sets of interviews for prospective employees — one for skills and another for culture fit — and the focus is on long term employee retention rather than on fixing a short term need.

Strategy #2: Provision of Strong Employee Benefits

The companies interviewed for *Employees Matter* have invested in their employees through flexible and supportive workplaces and comprehensive benefits (health insurance, retirement, flexible work arrangements such as telecommuting, onsite child care, dogs at work, educational subsidies for employees and their children, quiet rooms, subsidized meals for LMI employees, and discounts on company products). Here is an overview of the benefits offered at firms surveyed for this report:

The basics

Employees, particularly non-management and those closer to entry-level, rely on strong benefits such as majority employer-paid health insurance to help make ends meet. Companies interviewed for this report are committed to paying 70% - 100% of employees' health insurance costs, and as the cost of insurance goes up, firms like Better World Books work hard to assume a significant amount of the financial burden to help lessen the impact of higher contribution costs for employees, as well as supporting its part-time employees on a path towards full-time employment and benefits.

Notably, The Redwoods Group pays 100% of the premiums for employees earning \$35,000 a year or less, and 90% for those earning \$36,000 or more. One entry-level employee told CEO Kevin Trapani that having the company pay a larger share of the premiums (so that she didn't have to rely on Medicaid) "saved her dignity," as well as giving her and her children access to better quality care. Other firms such as Dancing Deer Baking Co. provide full benefits to part-time employees. The bakery is also on the bus line, and many of its entry-level employees rely on public transportation to get to work.

Retirement benefits are an important wealth building tool for low to moderate income employees. Most of the *Employees Matter* companies provide 401K plans for their employees, and many of these are matched by the company. For example, Dancing Deer provides matched IRAs, and at The Redwoods Group, employees' 401(k)s are matched dollar for dollar up to 6%.

Flexibility and telecommuting

Flexible work hours are increasingly valued by the workforce and can be key tools for work-life balance. Some options include flexible starting and ending times, telecommuting, and compressed work weeks. Such benefits have allowed companies such as groSolar to attract and retain strong employees. “They work very hard for us as a result,” says CEO Jeff Wolfe. In addition, the company has stepped in to help coordinate carpools. In one case, four employees were able to save more than \$100/week by carpooling. Full Sail Brewery adopted a four-day workweek (four 10-hour shifts), reducing power consumption and water use by 20% and allowing employees a day in which to take care of personal business, which CEO Irene Firmat says she particularly appreciated when her children were young.

Engaging the whole employee

Inadequate childcare can be a stress point for employees and lead to absenteeism, tardiness, and reduced productivity. One company interviewed for the report, PrintingForLess, features an onsite daycare facility so parents can be assured their children are in good hands. And both PrintingForLess and groSolar allow well behaved dogs at work. “Surveys show that employees who can bring their dogs to work are more productive,” says Sue Lewis of groSolar. “It is a stress reliever and they don’t have to rush home to take care of them.”

Educational subsidies

Dancing Deer provides educational subsidies for its employees and works to accommodate the schedules of employees in educational programs, which former CEO Trish Karter says engenders loyalty. Likewise, The Redwoods Group subsidizes the cost of college education for employees’ children up to \$5,500 a year, which also leads to very loyal employees according to CEO Trapani. Salvage Direct and others provide subsidies for continuing education.

Additional benefits

groSolar employees are eligible for a discount on the company’s solar panels. Southern Energy Management supports employees through its mind-body-spirit program by establishing a library for the mind, installing a basketball goal for the body, and setting aside a quiet room for refreshing the spirit. Likewise, Ryla established a quiet room for employees needing a few moments downtime. The firm also offers subsidized breakfast and lunch at the Ryla Café. And unlike its competitors, Smart-Pak’s sales and service representatives are salaried rather than hourly, with good benefits and nearly twice the rate of pay of others in the industry. “It’s a huge premium but we ask more, we train them a lot more heavily, and we expect them to really connect with customers,” CEO Paal Gisholt explains.

Strategy #3: Extensive Training and Promotion from Within

Extensive Training

The companies profiled say the next step is to invest in employee training, both to teach skills and to communicate the company's core values and culture. All of the companies profiled provide some combination of trainings, from initial orientation and soft skills (such as dressing for success and effective communication), to specific skill training, to ongoing coaching and management training.

New PrintingForLess employees undergo eight to ten weeks of training. To promote cross-department communication, the company recently held a video contest, inviting employees to submit videos that describe their work in a creative way. PrintingForLess University, another internal resource, lets employees gain instruction on such company skill sets as online processes and machine repair.

Ryla, a customer care solution provider, invests in its employees through extensive on-the-job training which includes soft skills, customer service and sales skills, and an orientation to the company's history and core values. The company has long been committed to empowering employees by giving them the skills and information they need from the beginning to be successful. Siovan Williams, with Ryla since its founding, started as an agent on the phone, and then was encouraged to grow and advance through extensive training. She helped pioneer the reporting department, where she mines and interprets data both for internal use and for clients. Without a college degree, Williams says her opportunities at the firm have been tremendous. "It's almost unfathomable for someone with very little professional experience to have such incredible training and opportunity," she said. "I have significantly grown my skills."

At internet marketing agency Red Door Interactive, trainings for management and non-management are offered frequently and range from job function related skill building to approaches to conflict resolution. At the end of 2009, 36% of employees had participated in a management training program. "Our challenge has been to develop those people into managers and create the structure where there is opportunity for people to develop in their careers," according to co-founder Amy Carr.

Promotion From Within

After training employees extensively both in job skills and the company's culture and core values, the companies interviewed invest further in their people by promoting them from within. This ensures that employees at higher levels truly understand the strong emphasis on customer service present at many of the *Employees Matter* companies. Examples include ATA Engineering's focus on "customer delight," Full Sail Brewing's knowledge that "every interaction is a chance to win that customer for life," the PrintingForLess mantra of "extreme customer service," Red Door's customer service-focused culture, Ryla's promise (emblazoned on the wall of the office) of "excellent interactions every time," and SmartPak's value of "maniacal customer service." These companies drew a direct line between engaged, happy employees and excellent customer service. As Paal Gisholt, CEO of SmartPak explains, "it is really hard to ask your team to treat customers really well if they're not being treated well themselves."

Long-time Ryla employee Cathy Daniels described the respect management has for employees and their ability to move into other jobs within the company. Without a college degree, Daniels says she was encouraged to grow from her beginnings as an agent on the phone to the technology side of the business. She says the company does an excellent job of promoting from within and training people in new areas. "It would be easier to bring people in from outside but they are committed to growing existing employees," she said. "They go the extra mile."

PrintingForLess also frequently promotes from within and provides many opportunities for entry-level employees to advance. Human Resources and Benefits Director Suzie Lulich says the company prefers promoting existing employees over hiring those from outside – unless they need particular new ideas and skills. "We've had a lot more success with people fitting into our culture in middle and upper management when they move from within," she explains.

Likewise, Red Door actively works to "develop a bench" by hiring carefully at entry-level followed by intense training and cultivation into more senior positions. This way, Amy Carr explains, upper management is fully engaged with the company's customer service-focused culture. And SmartPak has a similar practice of promoting from within, which means that many executives cut their teeth in customer-facing positions.

CULTURE FORMATION

Strategy #4: Fostering a Culture of Mutual Respect and Trust

Intangibles such as trust and respect are a significant part of a strong workplace culture at the companies profiled for the report. Firms reported that employees who feel respected are much more likely to be loyal, and employees may value respect even above rewards. Why is trust important? According to *Employee Engagement: Tools for Analysis, Practice, and Competitive Advantage*, a very useful guide to employee engagement, “Trust is what frees employees to put their full energy and commitment to work ... when there isn’t trust, employees instead spend much of their energy protecting themselves.”⁵ As the companies profiled in this report show, building a culture of trust takes time and deliberate practices such as a no-gossip policy, as well as consistent respect shown by both management and non-management.

Ryla’s Siovan Williams, though she appreciated being part of the firm’s stock option plan and benefited financially from a recent liquidity event, says she is most motivated by the culture of mutual respect created and reinforced by top management. Ryla’s work environment buzzes with a palpable friendliness and vibrancy, a tone first established by its founding CEO Mark Wilson. He says that creating an atmosphere where people feel it’s “the best job they have ever had” is an essential element of Ryla’s business model.

Likewise, North Carolina-based solar firm Southern Energy Management flourishes on the Golden Rule. Co-Founder Maria Kingery says the company is driven by an “attitude of gratitude” that has resulted in very little employee turnover.

Communication is a core value at Namaste Solar – so much so that the firm has trademarked FOH™ – Frank, Open, and Honest communication. This helps prevent gossip and results in any issues being resolved quickly and respectfully, fostering an atmosphere of trust. PrintingForLess has gone so far as to create a firm no-gossip policy which Human Resources and Benefits Director Suzie Lalich says is key to the firm’s strong team culture of trust and respect.

Full Sail’s engaged employee owners enable the small, independent brewery to remain competitive. CEO Irene Firmat makes it sound easy. “At the end of the day it is about treating people with respect, communicating well, and finding ways to use our resources most efficiently.”

Strategy #5: Celebrating Success

Companies with great employee cultures work hard and spend time celebrating as a team. Celebrating the achievement of company milestones helps provide energy and motivation to move forward towards the next milestone. And celebrations are a reminder of the company's mission and the fact that the team can accomplish more together than alone. Companies profiled for *Employees Matter* enjoy a range of celebrations, from potlucks and birthday lunches to annual holiday parties to lavish company-wide trips to Las Vegas. Others have online employee recognition tools, discounts on company apparel, and paid days off for high achievers.

When someone at Red Door does a good job, a fellow employee will give him or her “mad props” – the firm's term for recognition and praise. The firm also boasts a Morale and Culture committee which keeps the office lively by organizing holiday parties and cook-off contests. Employees may also nominate one another's outstanding performance using a peer recognition tool that is displayed on the company's internal computer network. One nominee per quarter earns a paid day off.

At online vehicle salvage firm Salvage Direct, employees are celebrated in a number of ways. The company has traditionally held a big annual party with plentiful food and entertainment for customers, employees, and families. Employees get to play golf at a cut rate each Tuesday and employee retirements or going away parties are celebrated at a local brewery. Employee inclusion is cemented in matching company gear – a \$50 credit towards the purchase of Salvage Direct apparel makes people “feel like part of the organization,” according to former CEO Dan Hoversten.

And Advanced Circuits, manufacturer of custom printed circuit boards, has a tradition of establishing stretch goals that, when reached, have resulted in several company-wide, all expense paid trips to Las Vegas.

Strategy #6: Communicating the Company's Core Values Clearly and Consistently

Another practice of strong employee cultures is their frequent communication of core values through multiple channels. From newsletters to video conferencing to a CEO that is regularly in touch with employees at every level of the firm, these companies consistently reinforce their core values so that employees can act in accordance with the company culture. Other methods used by *Employees Matter* companies to communicate core values include having new employees sign a mission and values statement, developing employee recognition programs crafted around core values, and reinforcing the core values in trainings and office signage.

For example, PrintingForLess requires new employees to read and sign an agreement with the company's mission and values statement, which includes such principles as high performance, extreme customer service, and "buoyant, indomitable optimism," along with the no gossip policy.

SmartPak's culture was created and is reinforced by the company's well-crafted values statement and employee recognition program called SMARTER: speed, maniacal customer service, analysis, risk taking, teamwork, execution, and respect. A peer nomination process identifies one employee quarterly that best exemplifies each of the SMARTER categories. The nomination committee seats rotate across departments allowing employees to build relationships with people outside of their division. The winners, celebrated at quarterly company-wide meetings, receive a \$250 check. Employees stay motivated on an ongoing basis by striving to win all seven core value awards, which earns them a \$1,000 check and significant company-wide recognition.

The Signature Group's primary competitive advantage is its "Culture of Excellence" which results in high quality of service and solutions that are delivered on time, on budget, and with the ability to scale flexibly as the client's needs grow. The Culture of Excellence includes the core values of excellence, passion, integrity, teamwork, respect, accountability and innovation. According to the company's website, every clients' project is engaged with a "never quit, never die attitude" that ensures the highest level of quality.

And Ryla is known for its often repeated slogans, including "you bring the will, we'll give you the skill," "the best job you've ever had," and, emblazoned in large letters on the wall of the office, "excellent customer interactions every time."

BROAD-BASED INVOLVEMENT AND OWNERSHIP

Strategy #7: Sharing Key Success Metrics

Another strategy used by many of the companies interviewed for *Employees Matter* is to share the metrics that are critical to the company's financial success (known in open book management circles as the "critical numbers") broadly with employees and to articulate those that employees affect daily. Firms that embrace open book management may instruct employees in how to read a balance sheet and an income statement. They take time to identify their critical numbers or key success metrics, which differ based on industry but are always measures of profitability.

At CleanScapes, for example, clearly communicated success metrics combined with team rallies, strong benefits, and other morale boosters, has led to a fast growing firm with an engaged workplace, low accident rate, and strong environmental and social impacts. Goals and expectations are clearly communicated through “CleanStats,” a summary of key metrics shared with employees at weekly company meetings. Keeping tabs on the stats has been instrumental in helping the firm meet and beat its internal financial performance goals. Dedicated efforts, from top management to entry-level employees, have helped cut missed pickups, accidents and route hours (which drive most of the firm’s direct costs including labor, fuel use, and maintenance expenses) down to acceptable and budgeted levels. In fact, the company’s laser focus on the numbers has helped steer stats low enough to earn the company bonuses from the City of Seattle, a key customer.

At PrintingforLess, financial targets are constantly updated on employee’s computer dashboards. The printing company also employs daily huddles, clear and regular communication of goals, and a focus on accountability.

Full Sail Brewery has always had an open book management philosophy, which increased with its transition to an employee stock ownership plan (ESOP) structure in 1999. One open book strategy used by the company is to put potentially confusing financial language into “per barrel” terms – a frame of reference brewers understand.

Many companies tie performance based compensation to attaining key success metrics (see Strategy #9 for more about key metrics and their associated rewards at companies profiled for *Employees Matter*).

Strategy #8: Employee Participation

Having some degree of autonomy in how work is done is a significant factor in increasing employee engagement and productivity, according to Daniel Pink in his useful and provocative book *Drive: The Surprising Truth About What Motivates Us*.⁷ While the degree of employee participation in decision making varied from company to company in the *Employees Matter* interviews, making sure all employees are heard and have input on how work is done is key. As illustrated by the companies profiled, sometimes the best ideas for efficiency improvements come from employees on the production and shipping lines or on the phones. And if the company’s core values are constantly communicated, employees at all levels can be empowered to make good decisions.

Namaste Solar, with 70 employees, reinforces the contributions of its employees by making big decisions by consensus. On the other hand, very large firms, like Ryla – currently employing more than 3,500 – have been able to maintain a strong, dynamic culture where employees’ ideas are heard through regular meetings with upper management and weekly team meetings.

At South Mountain Company, 31 employees with an average tenure of 12 years are owners or are on a path to ownership. According to CEO John Abrams, a cooperative structure was selected over other comparable forms such as an employee stock ownership plan (ESOP) because the company was too small for an ESOP and also because they wanted “a highly democratic and welcoming structure.” ESOPs, Abrams felt, share wealth but not always power. “In a cooperative, the power is truly shared through one person, one vote,” he explains. “This can result in better decisions because an engaged workforce is a more knowledgeable one, and we try to mine the collective intelligence of our employees.”

ATA Engineering practices open book management to ensure that all employees understand what the numbers mean. Big decisions are made on a consensus basis. Although it might be faster to use a “benevolent dictator” decision making process, General Manager Jeff Young said, it would not result in the same broad level of buy-in. In short, while getting people involved in decision making takes longer, implementation is faster, he says. The consensus structure has stayed in place even as the company has grown by utilizing committees and teams. Internet

OPEN BOOK MANAGEMENT

Open book management is a practice illustrated by business leader Jack Stack in his book *The Great Game of Business* ⁶. Stack’s basic rules for open-book management are:

- **Know and teach the rules:** every employee should be given the measures of business success and taught to understand them
- **Follow the action and keep score:** all employees should track the progress on critical numbers through weekly huddles and scoreboards and take action to improve performance as needed
- **Provide a stake in the outcome:** every employee should have a direct stake in the company’s success (equity, employee stock ownership plan, profit sharing).
- **More information about open book management may be found in the resources listed in Appendix A: Employee Ownership and Engagement Resources.**

tools also make it easier to gather feedback from all employees. The firm considers it even more important, now that it is larger and has multiple locations, to get feedback from everyone.

And SmartPak, a manufacturer of custom animal supplements, has a dramatic story of empowered employees. In 2007, there was a widespread recall of pet foods with ingredients manufactured in China, thought to be contaminated by a toxic chemical. The incident could have spurred a major catastrophe for the company. To add to the challenge, SmartPak's owners were vacationing with their family when the news hit. But because the company had a plan in place and a well-trained management team still on the ground back at headquarters, SmartPak's recall plan went off without a hitch.

Gisholt credits his firm's strong culture for SmartPak's ability to respond to that major curveball. "If you have a good culture, people will make generally good decisions," he says. "Not always the decisions you [as CEO or management] would make, but their decisions will be ten times better than if you have only control procedures."

In other words, if you allow employees the flexibility to exercise good business judgment within your company's guidelines, employees will perform. As Gisholt said of his own team, "people will be empowered."

Strategy #9: Performance-Based Rewards and Compensation

Companies interviewed for *Employees Matter* frequently tie rewards such as profit sharing, gain-sharing, and bonuses to achieving company metrics or to increased efficiencies. If employees find ingenious ways to save the company money, they are rewarded with some of those savings. And companies that value team-based performance are deliberate about tying some rewards with achieving metrics as a team. A fundamental rule of employee engagement is not just allowing engagement programs, but structuring and monitoring them to make them work.

For example, Advanced Circuits has nearly perfected the art of creating employee performance-based bonuses that are well matched to the company's financial metrics and goals. Their approach involves carefully explaining to employees how their contributions contribute to the company's operations, giving the employees the skills and training necessary to succeed in their roles, and regular positive reinforcement. Importantly, employees' performance is always measured by metrics they can control.

To keep employees motivated, firm performance and profitability targets are tied directly to incentives, including profit sharing and tri-annual bonuses. “Everyone shares when the company hits a goal,” says CEO John Yacoub. Employees meet one-on-one with supervisors three times per year to discuss goals and expectations, establishing a basis for a performance bonus that could reach up to 10% of an employee’s salary or monthly hourly rate.

All full-time, regular employees at PrintingForLess are eligible to receive bonus compensation quarterly. The self-funding bonuses are based on specific criteria related to the overall business performance. The summer quarter of 2010, for example, had the theme of “continuous improvement for remarkable interactions.” Each of the three metrics can be met at a low, medium or high level, and the bonuses are paid out proportionately.

The Red Door variable pay plan is based on five key company metrics, emphasizing customer satisfaction, three internal metrics around sales and profit margin, and a final metric around utilization of people. The cash bonus, based on hitting those metrics, is awarded based on a percentage of salary.

The SmartPak gainsharing program is team-oriented to encourage team behavior and is based on three metrics: the amount of time per order, the quality level, and days ahead of shipping goal. It is possible for the team to make a full or partial bonus or none at all depending on how the month went, says Gisholt. If there is no surplus to distribute, there is no bonus. “This system aligns the businesses’ incentives to the peoples’ incentives,” he explains. “People pay attention to the numbers and urge each other to set new records. It makes things more fun.”

At New Belgium, employees are encouraged to propose ideas that can help drive the business. For example, two employees recently proposed eliminating 12-bottle pack dividers, which led to \$280,000 and 150 tons of paper saved along with reduced machine downtime. Because of the brewery’s profit sharing program, all employees enjoyed a part of the cash benefit from the savings.

Strategy #10: Sharing Ownership Broadly

There is a growing body of research that demonstrates that stock options (options to buy stock in a company at a future date at a price set at the time of the option grant) granted broadly to the majority or all of a company’s employees can increase the productivity, retention, and satisfaction of a company’s workforce⁸. In a comparison of firms of different sizes, and during different market conditions, researchers found that companies with broad-based stock options in place were more

productive than companies without such plans, regardless of market fluctuations.

Some anticipated that new regulatory requirements (Sarbanes-Oxley and Section 409A of the Internal Revenue Code) in the post-Enron era might result in more limited distribution of stock awards. But according to the National Center for Employee Ownership, broad-based options are not only still present in firms – they’re alive and kicking. As of the spring of 2009, there were nine million employees with stock options, down only a little from a high in the early 2000’s of ten million⁹. Many of the companies profiled for this report expressed the idea that ownership is meaningful to employees at all rungs of the ladder. Most ATA Engineering employees, for example, have advanced degrees, while most Dancing Deer employees and many at Advanced Circuits do not have a college education. Employees at Southern Energy Management are mostly college educated but entry-level. However, despite the employees’ education or experience, they have the opportunity to share in the success of the company through equity ownership.

The companies surveyed for *Employees Matter* varied in their approaches to employee ownership. Some share equity via stock options, restricted stock, or employee stock ownership plans (ESOPs). Others have profit sharing plans, gainsharing, or performance based bonuses (see Strategy #9). Below is more detail on the various options for sharing ownership.

Broad-based stock options

Some firms commit to broad ownership by awarding stock options to most or all employees. For example, Southern Energy Management founders Bob and Maria Kingery decided to share equity with all employees at their solar start up as a result of their own positive previous experience as employees of a company at which they received significant stock options.

The Signature Group is an employee-owned information technology consulting company that awards workers with performance based and discretionary stock options and thrives on the link between employee ownership and the bottom line, according to CEO Michael Perdue. Employees are able to exercise options or sell their shares on a quarterly basis via a self-funded internal stock market. Significantly, Perdue’s personal stake has gone from 39% originally to 22% today, with employees gaining the difference. “But my current 22% is worth much more than the original 39% since the company has grown,” he stresses. “And without broad ownership, we would not have weathered the economic downturn.”

Like the Signature Group, broad-based ownership has been a non-negotiable at Dancing Deer Baking Company. Founder and Chairman Trish Karter would accept nothing less than using employee ownership as a path to assets and opportunities for the 75 bakery employees. About 15% of the company's option pool has been distributed broadly to non-management. High road labor practices are core to the company's branding and lead to greater customer loyalty and sales.

PrintingForLess has a strong culture reinforced by shared equity, a structure that was important to CEO Andrew Field. About 20% of the firm's equity pool is distributed broadly to all full-time employees in the form of incentive stock options (ISOs). The concept of shared ownership is "communicated over and over to employees," says Lulich. "They know they have a stake."

Restricted Stock

Another way companies share equity is by awarding or selling restricted stock to employees; this is the case at Namaste Solar, profiled in this report. These are actual shares of stock as opposed to the option to purchase stock at a later date, but employees are often required to meet some condition, such as years of service, before they can actually take possession of the stock. At Namaste, all full-time, salaried employees can buy restricted stock immediately upon hire, and they become fully vested in five years. There

are no majority stock holders and over 90% of employees hold stock. CFO Stephen Irvin believes Namaste's shared ownership structure is part of its competitive advantage in the industry: employees think and act like owners, whether installing panels on the roof of a home or managing administrative functions. Satisfied customers naturally respond to this by making referrals. Over half of the company's sales come by word of mouth and the firm routinely racks up strong customer survey responses.

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PROFIT SHARING & GAINSHARING

Profit sharing is defined as taking a percentage of a company's profits, putting it into a pool, and disbursing it to the company's employees, usually sometime after the close of the year.

Gainsharing is the payment of a bonus based on the achievement of a specific target or targets. This could be company-wide, such as meeting a sales or customer satisfaction goal, team-based (warehouse achieving x% on-time shipping), or some combination.

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Employee Stock Ownership Plans (ESOPs)

An employee stock ownership plan (ESOP) is a defined contribution benefit plan in which a trust is created to buy and hold company stock, and shares of the trust are then allocated to individual employee accounts (see sidebar for more details). Full Sail Brewery transitioned to an ESOP structure in 1999. The ESOP has been a factor in increasing employee engagement, according to CEO Irene Firmat. “For the group of people it really inspires, you get some extraordinary outcomes,” she said. “And for some it can take more time to understand that they are truly owners, yet we have found that they have become more thoughtful about how to use resources and waste less.”

ATA Engineering became an ESOP in 2005 with the help of the Beyster Institute; this new structure was a natural fit with the culture of engagement the company already fostered, according to General Manager Jeff Young. An ESOP can be a component of an employee’s retirement plan, and since ATA hires many new engineers right out of college who tend not to think about retirement, the firm also issues stock options. Employees are fully vested after four years and options retire after ten. Administrative staff (including the receptionist, technical editor, and HR manager) and engineers all receive options and participate in the ESOP.

New Belgium Brewing credits much of its success to its ESOP structure, which features a very active ESOP committee nicknamed POSSE. The firm has been so successful in engaging employees in its green initiatives that it won an Innovations in Employee Ownership Award in 2008 from the National Center for Employee Ownership and the Beyster Institute.

More detailed explanations about the various employee ownership structures may be found in Appendix B: Broad-Based Employee Incentive Arrangements. In addition, the National Center for Employee Ownership is an excellent source of information and assistance, as are other sources listed in *Appendix A: Employee Ownership and Engagement Resources*.

EMPLOYEE STOCK OWNERSHIP PLANS (ESOPs)

An Employee Stock Ownership Plan (ESOP) is a tax-qualified retirement plan exempt from the statutory requirement to diversify investment; in fact, it is designed and intended to invest primarily in stock of the company that sponsors it. In addition, an ESOP is specifically allowed to borrow money (based on the good faith and credit of the company and/or parties in interest guarantees) in order to do so. As such it is a very flexible, tax and cost effective way to acquire large blocks of stock and distribute shares broadly for the benefit employees based generally on their relative compensation.

In an ESOP, a company sets up a trust fund, into which it contributes new shares of its own stock or cash to buy existing shares. Alternatively, the ESOP can borrow money to buy new or existing shares, with the company making cash contributions to the plan to enable it to repay the loan. Regardless of how the plan acquires stock, company contributions to the trust are tax-deductible, within certain limits. Shares must be allocated at least to all full-time employees who have worked for one year based on relative pay or a more level formula. Shares are subject to vesting and are held in the trust until the employee leaves, when they are bought back by the company or the plan (unless there is a market for the shares).

As a concept, ESOPs are increasingly viewed as a highly tax-favored and established alternative for companies considering sale. An ESOP can be a way for a retiring owner to gain liquidity while turning the company over to the employees and allowing the jobs and other economic development benefits to remain in the existing geography. A high profile example was the decision by Bob's Red Mill founder Bob Moore on his 81st birthday in February 2010 to turn his company over to his employees via an ESOP.

Authorized in 1974, ESOPs are sometimes considered as a possible exit strategy in mainstream financial transactions including traditional venture capital.¹⁰ If the shares in a closely held company have been held for three years, the investors can defer taxation on the gain by reinvesting in other securities.

Researchers from University of Michigan and the University of North Carolina at Chapel Hill corroborate previous findings that ESOP plans increase worker productivity and enjoy positive stock price reaction to ESOP formation.¹¹ The National Center for Employee Ownership estimates there were about 10,500 ESOPs or equivalent plans in 2010, with almost 13 million employees participating.

CO-OPERATIVES AND LIMITED COOPERATIVE ASSOCIATIONS

According to the website www.go.coop, there are 47,000 cooperatives in America serving 130 million members. Worker co-ops, which are owned and governed by their employees, span a variety of industries, including child care, food service, technology, and manufacturing. Such co-ops provide meaningful jobs and asset-building opportunities for workers of all income levels. The Evergreen Cooperatives in Cleveland, which include a locally owned and operated laundry, solar panel installer, and several other businesses, is a recent high profile example.

There are other types of co-ops as well, including consumer co-ops such as REI (Recreational Equipment Inc.) and Nationwide Insurance, financial co-ops such as Self-Help Credit Union, and producer co-ops such as Ocean Spray and Sunkist. A 2009 U.S. Department of Agriculture report estimated the economic impact of cooperatives to include over 2 million jobs and 75 billion in employee income¹². Financial service (credit unions), electric utilities, agricultural production and insurance are among the sectors that have large numbers of cooperatively-organized businesses.

The cooperative structure can be an attractive one for small businesses that wish to share ownership and decision making equally among employees. For example,

South Mountain, a residential design/build company profiled in this report, elected to form as a cooperative in order to promote democratic decision making and broadly shared ownership.

Recently a number of states in the Midwest have adopted statutes that allow for the formation of a new type of business entity, Limited Cooperative Associations (LACs). The move was driven by the changing needs of commodity producing agricultural cooperatives in the region that wished to expand their capital access in order to create new ventures in value-added production further down the supply chain. The new LAC structures improve capital access for cooperatives that would not otherwise be attractive to outside investors because of their set limits on returns.

Described as a hybrid of cooperatives and limited liability corporations, LACs allow outside investors to provide an additional source of equity capital to the cooperative without becoming patron members. (Most state statutes and federal laws limit the amount of dividends payable on the cooperative's stock.)¹³ Although agriculture producers played a key role in the formation of these new entities, the LACs formed to date in the five states with enabling legislation encompass a variety of business sectors, including retail and housing.

Employee Engagement Results

Employee engagement sounds good, but what are the actual business results? The companies profiled for *Employees Matter* shared several perceived bottom line results: they all report low employee turnover as well as high customer satisfaction rates and strong year-to-year customer retention. And ten of them describe ways that employee engagement practices directly helped them survive and sometimes even thrive during the recession.

Low Employee Turnover

Across the board, the companies profiled for *Employees Matter* report very low employee turnover, a significant cost savings (the total cost to replace one employee ranges from 50% to 200% of that employee's annual salary, according to the Society for Human Resource Management¹⁴). But several CEOs stressed that, while low turnover is good and they actively work to move employees into positions that best match their strengths, it is fine to let people go when they are not a good culture fit or are not adding value. As Paal Gisholt of SmartPak explained, "We're VC-backed with aggressive growth ambitions," he says. "We want to field the best team we can have who will play hard, play smart, and have fun."

Likewise, Full Sail's CEO Irene Firmat mentions low employee turnover at the brewery, but stresses the importance of hiring carefully and keeping only those employees who are adding value and contributing to the company culture.

Advanced Circuit's turnover rate is low – CEO Yacoub estimates less than 6%. Not considering the 130 employees that were added after a recent acquisition, employee tenure is between 8-10 years. At least 50 employees (about a fifth) have been with the company for more than 10 years. Prospective employees often comment at job interviews that everyone is smiling. And the company's high involvement hiring involves a personal interview with the CEO for any employee who will have contact with customers.

Namaste Solar also excels in employee attraction and retention – only three employees have left in five years. At ATA Engineering, employee turnover is extremely low, about 1% -2% per year. General Manager Jeff Young says the employees "like what they do and they like the ownership culture."

And customer care solution provider Ryla, in an industry known to struggle with 100% and higher annual turnover, has employee retention rates that are twice as high as industry average and show-up rates well above industry norms. This has been an important differentiator for the company. In addition, Ryla is able to scale up quickly for new projects because the engaged employees recruit their friends.

High Customer Satisfaction and Retention

Another theme echoed by all of the firms profiled was very high customer satisfaction rates and strong year-to-year customer retention. As previously mentioned, these firms all had a strong focus on customer service, and many conduct surveys to get feedback from clients. CEOs point to the direct connection between highly engaged employees and customer satisfaction.

Advanced Circuit's strong employee culture has strengthened its relationship with its customers, according to CEO Yacoub. For nearly ten years, the company sent out a survey with each order. Questions or complaints are followed up with personal phone calls from the company, not a third party. Afterwards, both the customer's concern and the company's reply are posted for all employees to see and learn from. ATA Engineering, whose focus is "customer delight," also surveys its clients after projects are completed. The results have been very positive and customer retention over time is strong.

Southern Energy Management correlates better customer service and satisfied customers with its great employee practices. A customer survey conducted in 2009 resulted in a great deal of positive feedback, with one customer awarding Southern Energy Management an 11 on a 1-10 scale, despite not having a completely smooth installation. Co-founder Maria Kingery chalks it up to Southern Energy Management's culture of service – "helping people get what they want," she said.

CleanScapes' laser focus on the numbers has earned the company bonuses from the city of Seattle, a major customer. CFO Chris Husband says the company's rapid growth and high customer satisfaction are largely due to its team of engaged employees. "The folks in the field are the key," he says. "Their hard work and positive attitude has enabled our success to date and will determine our success in the future."

PrintingForLess.com's engagement practices are a strong factor in the firm's growth and financial results, says HR and Benefits Director Suzie Lalich, measured by the firm's ability to pay out the self-funding bonus pool, excellent customer retention (a page on the company website is devoted

to video and written customer testimonials), and a customer referral metric.

Customer retention at The Redwoods Group is also consistently high from year to year. In 2009, at the heart of the recession, the company had budgeted for 85% customer retention but achieved 91%. In a non-recession year, customer retention has been as high as 97%.

SmartPak's Gisholt says his company has differentiated itself in the small but competitive custom-made animal supplements market through exceptional customer service driven by its engaged employees, regularly outpacing its industry in sales by 5% to 10%. As Gisholt explains, "it is really hard to ask your team to treat customers really well if they're not being treated well themselves."

Namaste's culture of engaged employee owners is a key competitive advantage, according to CFO Stephen Irvin. Employees think and act like owners, whether installing panels on the roof of a home or managing administrative functions. Satisfied customers naturally respond to this by making referrals. Over half of the company's sales come by word of mouth and the firm routinely racks up strong customer survey responses.

And another employee-owned firm, The Signature Group, has been lauded for seven years in a row by Microsoft and CISCO for customer satisfaction. CEO Michael Perdue says that recognition is directly attributable to the employee ownership program, since all clients are served by employee owners who are incentivized to focus on customer satisfaction.

Increased Ability to Survive Economic Downturns

General economic downturns are challenging for any business. The companies profiled for this report were able to take advantage of their engaged teams to creatively respond to the challenges of the 18-month recession that began in December 2007 and lasted through June 2009 – the longest since World War II, according to the National Bureau of Economic Research¹⁵. Several companies took shared pay cuts to keep their teams intact, allowing them to be well positioned when the economy recovered. Another firm challenged its team to find new efficiencies when raw material costs rose, so that the final product cost could remain constant. All companies credited their strong lines of communication and fully engaged employees with the success of these recession-beating measures.

Dancing Deer's former CEO Trish Karter says that practices such as open book management helped employees pull their weight in hard times. "We had a rough couple of years during the recession," she said. "We survived because of engagement." Strong lines of communication, in particular, were key, she says. Likewise, PrintingForLess credits its strong communication and open book management with recession survival. "There was fear but because of our open book management employees knew how the company was performing the whole time," says Lalich. "Understanding what the company was going through contributed to less unease among employees."

In 2009, Advanced Circuits was faced with the possibility of having to let go of 30-40 employees. Instead, "we came together as a family and everyone took a bit of pain," Yacoub recalls. The jobs were spared because all employees, including management, took 10% pay cuts for six months. The company weathered the recession, and salaries were reinstated.

Similarly, Better World Books came together as a team to avoid laying off 42 employees during the economic downturn. The CEO and Co-founders took a 20% pay cut, VPs took 15%, managers 10%, and floor employees took 5% (without a loss in benefits). Management promised employees that if they hit their target by the end of the year everyone would get a bonus. They delivered.

The company was profitable by the second half of the year and all salaries were reinstated – except the executives'. CEO David Murphy says the move to retain the executives' pay cuts for a year instead of six months prompted questions from employees. They thought everyone should benefit from the company's return to growth. Murphy thinks that the employees' concern shows that the management team did the right thing by "making the cuts, sacrificing, and communicating," he said. Openness and transparency with the financials during the downturn was key in keeping the team intact.

At Full Sail Brewing Company, the recent recession caused a jump in barley and hops costs, which could have driven up the price for Full Sail's beer – already a luxury item. CEO Irene Firmat issued a challenge to increase efficiency and reduce costs, thus avoiding a price hike and keeping the company competitive. Supervisors worked with their teams to flesh out a cost-cutting strategy from the ground up. Ultimately, the company beat their projections by year's end – and sales increased by 20% despite the downturn. "It was really cool to see employees take ownership of it," says Firmat, who noted that having the innovation led by employees rather than management was a big point of pride for her team.

GETTING STARTED

Advice for entrepreneurs implementing employee engagement and ownership

- Implement good human resource practices from the beginning and intentionally foster a workplace culture of trust and respect.
- Apply care and consistency to maintain a strong employee culture – it is easy to lose trust and respect and hard to regain them.
- Actively seek out employees and ask their ideas for how to do things better. Implement any good ideas quickly, giving the originator credit.
- If the company plans to share equity broadly, consider implementing a stock option plan that allows for a wide variety of equity sharing vehicles.
- Communicate the critical numbers for company success clearly and consistently to all employees.
- Implement performance-based compensation based on metrics employees can understand and control.

Employee Engagement: A Strategy For All Private Companies

Another lingering question might be whether employee engagement applies to all firms, or if there are barriers to implementing engagement strategies at some companies. As previously noted, the firms profiled for *Employees Matter* represent a range of sectors and geographies across the United States, including consumer products, manufacturing, professional services, renewable grid and infrastructure technologies, design/build services, retail, and waste remediation. This suggests that geography and sector are not barriers to engagement. But two key questions are whether engagement strategies work with employees at all levels, and also how to scale employee engagement practices with company growth. These themes, as well as conclusions, are the focus of this chapter.

Can Engagement Work with LMI Employees?

Engaging low- to moderate-income (LMI) individuals who have often been left out of the economy was another lens used during the *Employees Matter* interviews. All but three of the firms profiled for the *Employees Matter* report employ LMI and entry-level employees and find that engaging these individuals fully, with training, promotion from within, shared equity and smart profit sharing, results in a more successful business on all levels. As Harvard's *Profit at the Bottom of the Ladder* report also showed, treating all employees well can yield greater business success, and in fact practices sometimes considered impractical, such as flexible working hours for manufacturing employees, are actually possible and can improve productivity.¹⁶

For example, at Ryla, the majority of the firm's more than 3,500 employees are LMI. The company employs the majority of the 10 strategies – they hire for culture fit, invest a lot in training, during which they very clearly and consistently communicate their core values of “excellent customer interactions every time” and “best job you’ve ever had.” When employees show particular promise, the firm invests in additional training to help build skills, and then actively promotes from within. The firm also offers subsidized breakfast and lunch at the Ryla Café, a particularly meaningful benefit for entry-level employees. And several early entry-level employees without college degrees were actively incentivized by their participation in broad-based stock options and benefit-

ted alongside management and investors during a recent transaction.

Better World Books and The Redwoods Group both have worked to minimize the impact of ever increasing health care premiums on its LMI employees. Better World Books had pay cuts during recession that were greater for management than entry-level, and reinstated entry-level after six months and management after a full year. The firm holds small group “lunch and learns” as well as other educational efforts to inform entry-level employees about their stock options.

CleanScapes has partnered with a transitional jobs program to train people “without great job opportunities to come work for our firm,” says CEO Chris Martin. Individuals who might be overlooked at other entry-level jobs have found well-paying opportunities in the company’s construction recycling division and neighborhood beautification team (including graffiti removal and street washing). Growing steadily since its founding in 1997, the firm now employs 260 individuals, many of whom are entry-level and benefit from the opportunity to develop a successful career path. “We have one manager that started with us as an \$8.00 per hour cleaning staff member five years ago,” explains Martin. “He now runs operations for our San Francisco office and is a tremendous asset to the company.”

Dancing Deer has also taken some risks with its hiring practices, including adding former convicts to the payroll. But former CEO Trish Karter says that because she and the supervisory team really got to know employees personally, they have moved up the ladder. One ex-convict is now a high performing supervisor. Many current supervisors once worked on the line. Karter says accommodating employees’ after-hours pursuits, such as night school, engenders loyalty and lower employee turnover.

At The Redwoods Group, employees making \$35,000 or less have 100% of their health care insurance premiums paid. Those making between \$36,000 and \$40,000 have 90% of their premiums paid. One entry-level employee told CEO Kevin Trapani that having the company pay a larger share of the premiums (so that she didn’t have to rely on Medicaid) “saved her dignity.” Redwoods also subsidizes the cost of college education for employees’ children up to \$5,500 a year. In addition to generous benefits, the company shares profits – and turns the usual corporate bonus structure entirely upside down. The first employees to be awarded bonuses are lower level employees, then management, then executives. Bonuses are two-part: first, almost all employees in good standing receive them on an annual basis, depending on that year’s profitability.

Salvage Direct was very aware of the impact of annual bonuses on its LMI employees. The firm made a practice of awarding bonuses for non-management in December to increase these employees' quality of life during the winter holidays, even though the company's books were not closed for the year. Management received their bonuses in January.

Can Employee Engagement Scale up with Company Growth?

Great employee practices are one thing when a company is small. But can firms grow their employee engagement as their companies grow and scale? One firm interviewed for *Employees Matter*, ATA Engineering, chose to grow a little more slowly in order to preserve its strong culture of employee engagement. The company has been profitable every year but strives for 15% annual growth, which is considered modest. At the pace it sets for itself the firm can meet goals sustainably. "If you grow too fast, you can risk your culture and values," says General Manager Jeff Young.

But other firms have found that employee engagement actually can scale very effectively, given attention and conscious effort. Ryla and Tweezerman are two examples of companies interviewed for this report that have grown very fast and have successfully worked to scale their engagement practices as they grew.

With explosively fast growth since its 2001 founding, Ryla has been recognized on Inc. Magazine's list of high growth companies for four consecutive years. Revenues climbed steadily from less than \$1.1 million in 2002 to over \$100 million in 2009. The number of employees increased from 20 in 2002 to more than 3,500 today, the majority of which are entry-level positions. One of the great successes of Ryla has been its ability to scale its culture as it grew to 175 times its original size. When Ryla had 20 or even 50 employees, CEO Mark Wilson was able to hold spontaneous standing "huddles" at which he could brief all employees about current business developments. Wilson also personally visited each training class for new employees to reinforce the company culture. As the company grew to 3,500 employees and more, Wilson let department heads lead huddles for smaller groups, but he continued to visit each training class. Wilson has deliberately allocated more of his time to attending training classes and participating in other employee engagement structures. "It is well worth the time spent," he says.

Ryla's culture of high growth driven in part by its strong employee engagement made it an attractive investment for SJF Ventures and Frontier Capital. And investment banking firm Harris Williams & Co. made special note of the culture when working to facilitate the recent acquisition of

the company by Alorica: “Management has developed a unique, employee-focused culture that is supported by a comprehensive set of benefits and employee programs. This culture has created a positive, professional work environment and drives Ryla’s industry-leading retention rates.”

Likewise, Tweezerman was founded with the idea of building an international firm with sound employee engagement practices. Founder Dal LaMagna was determined to do things differently in 1980 when he started the company. He says two ways the company maintained its employee engagement practices as the company grew were to keep its policies consistent, such as paying employees a living wage, and to work with Verité, a nonprofit that conducts social audits, to help assess its practices. The process included random interviews with employees, customers, and vendors. LaMagna says the firm quickly corrected any problems it found during the course of these audits. And when selling the firm, LaMagna was careful to choose a buyer that would continue the firm’s strong engagement practices, Zwilling J.A. Henckels of Germany. Further, he says the company sold for more than it would have because of its strong brand and the competent, engaged employees there to help continue its growth.

SmartPak mostly promotes from within, which means that many executives cut their teeth in customer facing positions. And although turnover is low, under 10%, CEO Paal Gisholt says a certain amount of turnover is fine. The most important thing is that the right people are in the right positions. “We’re VC-backed with aggressive growth ambitions,” he says. “We want to field the best team we can have who will play hard, play smart, and have fun.”

Conclusion

Increasingly, businesses are viewing their employees not as mere cost but as a key asset for business success. Management at the 24 companies profiled in *Employees Matter* perceive employee engagement strategies as a key driver of business growth and success and a strong factor in the ability to weather economic downturns. Entrepreneurs and investors in fast growing entrepreneurial firms are encouraged to consider adopting the best practices highlighted in the company profiles and the top 10 employee engagement strategies.

Namaste Solar Co-Owner and Chief Financial Officer Stephen Irvin effectively sums up the benefits of employee ownership and engagement. “Our ability to handle breakneck growth is helped by our shared ownership structure – everyone is thinking and engaged each day in running the business with an eye on our collective mission and values.”

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CASE STUDIES

Engaged Company Profiles

Leading Through Employees

Advanced Circuits

The Story | Corey Rosen, Executive Director of National Center for Employee Ownership, speaking at an SJF Institute/Winning Workplaces conference on employee engagement in 2007, offered a key lesson: “Employee involvement doesn’t happen because you allow it, but because you structure it.” Advanced Circuits, a 400-employee manufacturer of custom printed circuit boards based in Aurora, CO, provides a good example of how that rule works in practice.

Engagement Strategies | Advanced Circuits uses quick, daily standing huddles by department to discuss good news, hurdles, and goals for the day. Additional 10-15 minute weekly meetings and hour long, monthly company-wide check-ins keep employees engaged.

Company metrics such as on-time delivery rates, quality rates, shipping, and scrap volumes are discussed “every day, every week, every month,” according to President and CEO John Yacoub. These open book management strategies have resulted in Advanced Circuits holding the best-in-industry standard for on-time delivery and turnaround, says Yacoub.

To keep employees motivated, firm performance and profitability targets are tied directly to incentives, including profit sharing and tri-annual bonuses. “Everyone shares when the company hits a goal,” says Yacoub. Employees meet one-on-one with supervisors three times per year to discuss goals and expectations, establishing a basis for a performance bonus that could reach up to 10% of an employee’s salary or monthly hourly rate.

Likewise, the profit sharing program, at an average of 5% annual pay, is calibrated to a very clear set of goals. “Employees know where they stand at any given point,” says Yacoub. And, he stresses, employees are only judged by metrics they can control and are constantly informed about, such as booking, invoicing, customer complaints and shipping.

The company also has a tradition of establishing stretch goals that, when reached, have resulted

in several company-wide, all expense paid trips to Las Vegas. A buyout of the company's founding owner by a private equity firm made equity sharing with employees hard to structure. However, employees are made aware of the option to purchase stock in the publicly traded parent company, Compass Diversified Holdings.

Business Results | Yacoub says he “absolutely” sees a correlation between the company's performance and its incentives and initiatives. “The profit sharing program costs close to \$1 million per year,” he told us. “I would not do it if I didn't see a connection to business performance.” He adds that the company's current status as the most profitable in its industry is due to the hard work of its fully engaged employees.

The turnover rate is low – Yacoub estimates less than 6%. Not considering the 130 employees that were added after a recent acquisition, employee tenure is between 8-10 years. At least 50 employees (about a fifth) have been with the company for more than 10 years. Prospective employees often comment at job interviews that everyone is smiling.

And the company's high involvement hiring involves a personal interview with the CEO for any employee who will have contact with customers.

Advanced Circuit's strong employee culture



AT A GLANCE ADVANCED CIRCUITS

Business:

Quick turn circuit board manufacturing

Location:

Aurora, CO

Revenues:

\$52 million in 2009

Employees:

400

Engagement:

- open book management
- high involvement hiring
- teams and frequent huddles
- company-wide meetings and celebrations
- generous benefits
- profit sharing and tri-annual bonuses

Business result:

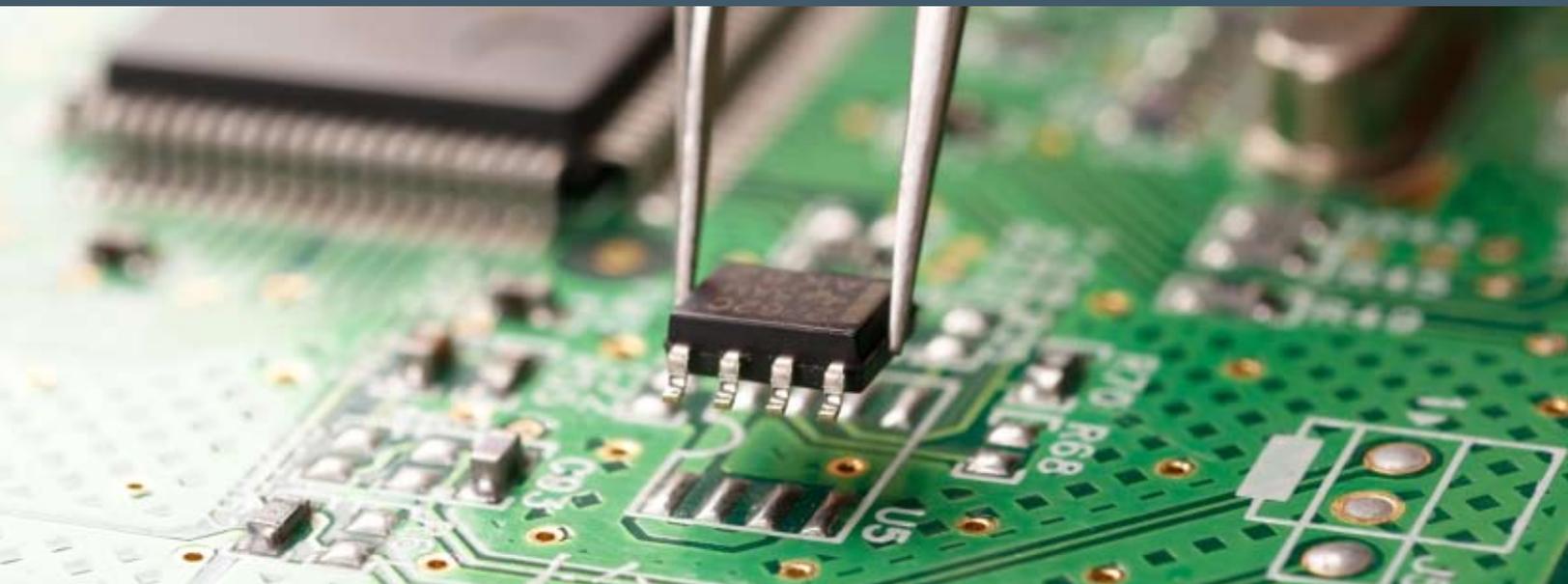
- low employee turnover
- high customer satisfaction and retention
- no layoffs during the recession

has only strengthened its relationship with its customers. For nearly ten years, the company sent out a survey with each order. Questions or complaints are followed up with personal phone calls from the company, not a third party. Afterwards, both the customer's concern and the company's reply are posted for all employees to see.

The high involvement culture also helped the company weather the last recession. In 2009, the company was faced with the possibility of having to let go of 30-40 employees. Instead, "we came together as a family and everyone took a bit of pain," Yacoub recalls. The jobs were spared because all employees, including management, took 10% pay cuts for six months. The company weathered the recession, and salaries were reinstated.

LESSONS LEARNED:

- **When developing employee engagement programs, structure them carefully and then continually monitor and change them as needed for success.**
 - **Assess and reward employees' performance only by metrics they can control.**
-



Sustainable Growth and a Strong Culture

ATA Engineering

The Story | Advanced Test and Analysis, organized as an Employee Stock Ownership Plan (ESOP) company with 91 employees, has a number of innovative employee engagement strategies which General Manager Jeff Young believes have kept its mechanical engineering services at the head of the pack.

Formerly a division of Structural Dynamics Research, the firm had a friendly spin off from its parent in 2000. Twenty eight employees, including senior technical staff and clerical employees, bought out the division's stake and created ATA Engineering.

Engagement Strategies | ATA has very high recruitment standards; often, up to 12 current employees will interview with a new candidate. Once a new employee is on board, "you have respect for these great people you've attracted and want to get them involved in decision making," he says. The National Center for Employee Ownership, in a review of the firm, said that "more than any particular management practice this high-involvement hiring process is the key element in ATA's ownership culture," as it creates a very high level of trust.

The firm practices open book management to ensure that all employees understand what the numbers mean. Big decisions are made on a consensus basis. Although it might be faster to use a "benevolent dictator" decision making process, Young said, it would not result in the same broad level of buy-in. In short, while getting people involved in decision making takes longer, implementation is faster.

The consensus structure has stayed in place even as the company has grown by utilizing committees and teams. Internet tools also make it easier to gather feedback from all employees. The firm considers it even more important, now that it is larger and has multiple locations, to get feedback from everyone.

Shared Ownership | From the beginning, ATA shared ownership broadly via stock options. (In fact, the original 28-member team had successfully lobbied for broader ownership when it was still part of the parent company.) In 2005, with the help of the Beyster Institute, ATA became an ESOP.

The firm hires many new engineers right out of college – employees that tend not to think about their retirement plans immediately. So ATA makes ownership more tangible to the younger staff by continuing to issue stock options. Employees are fully vested after four years and options retire after ten. Administrative staff (including the receptionist, technical editor, and HR manager) and engineers all receive options and participate in the ESOP.

Stock options and bonuses are distributed in proportion to employee’s salaries (with performance reviews taken into account). The structure reflects Young’s belief that very vocal employees should not receive more than equally strong, but quieter, performers. There is no separate bonus plan for senior leaders.

Business Results | The firm has been profitable every year but strives for 15% annual growth, which is considered modest. At the pace it sets for itself the firm can meet goals sustainably. “If you grow too fast, you can risk your culture and values,” Young says. Due to their numerous delighted customers,



AT A GLANCE ATA ENGINEERING

Business:

Engineering consulting

Location:

San Diego, CA

Revenues:

\$18 million in 2009

Employees:

91

Ownership:

- ESOP
- broad based stock options

Engagement:

- open book management
- consensus decision making
- high-involvement hiring
- bonuses

Business result:

- low employee turnover
- high customer satisfaction and retention

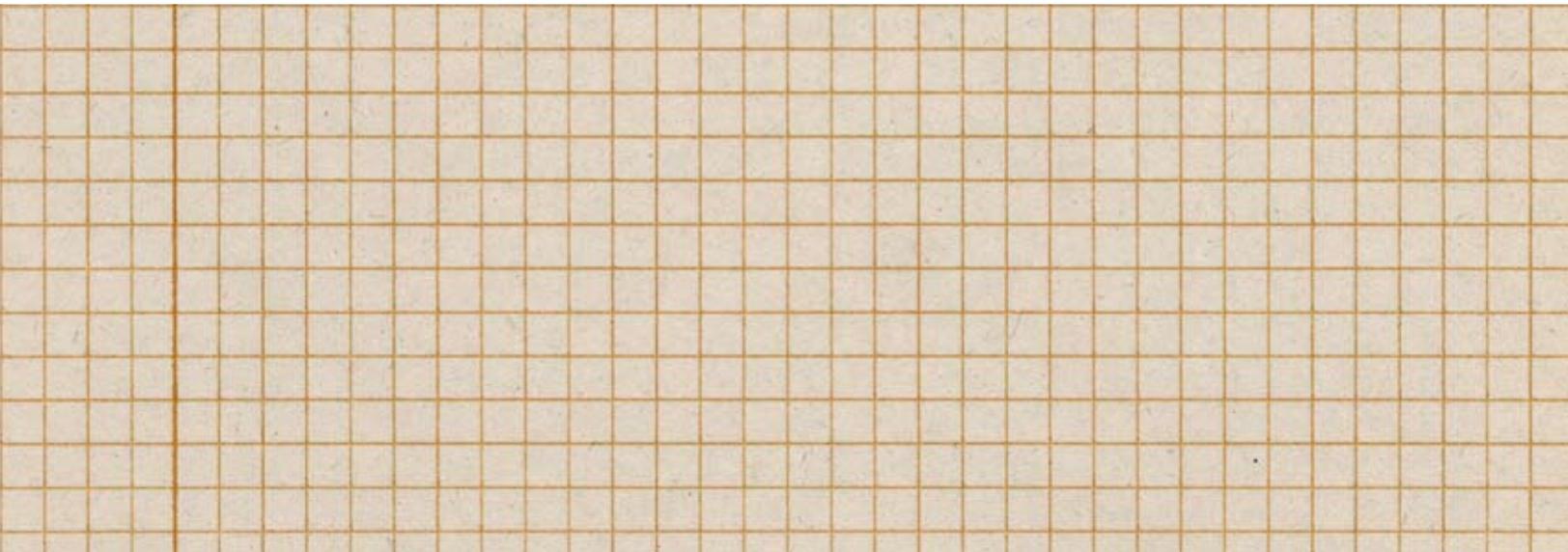
the firm has many repeat client companies in the aerospace, biomedical, automotive, amusement park, and consumer product industries.

One strong benefit to employee engagement is happier customers. Young said that surveys done after each of the company's projects have been strong. Customer delight (ATA's term) is the standard – customer satisfaction is not good enough.

All engineers are paid on an engineering scale based on educational degrees, years of experience, and whether the employee takes on a supervisory role – but these criteria are just a guideline. The philosophy is to pay people fairly and competitively. Employee turnover is extremely low, about 1% -2% per year. Young says the employees “like what they do and they like the ownership culture.”

LESSONS LEARNED:

- **Carefully manage growth to ensure company culture and values persist.**
 - **High recruitment standards and high involvement hiring lead to low employee turnover.**
-



The mission is “baked in”

Better World Books

The Story | Better World Books had its genesis when a group of college friends organized a book drive to help improve literacy in their local community. This led to a potential business opportunity, but with a twist: source used books from college campuses as well as from libraries and other institutions that can no longer use them, sell them on the internet, and direct some profits to fund global literacy programs.

Today the company sells used books on major sites like Amazon.com and E-bay’s half.com as well as its own website. Just six years old, the company earned \$31 million in revenue in 2009 and has prevented over 33 million books from entering landfills to date. As part of its expansive social mission, Better World Books is a certified B-Corp, a movement to expand the legal structure of corporations to include employee, community and environmental interests when making business decisions.

Engagement Strategies | Better World Books’ 300 mostly full-time employees work at its Indiana warehouse where its shipping and receiving operation is based. The company offers a generous benefits package to 100% of its full time workers, and supports its part time employees toward having “a path to full time employment and benefits,” says CEO David Murphy. He notes that as healthcare premiums have gone up, the company has worked to assume a significant amount of the financial burden to help lessen the impact of higher contribution costs for employees.

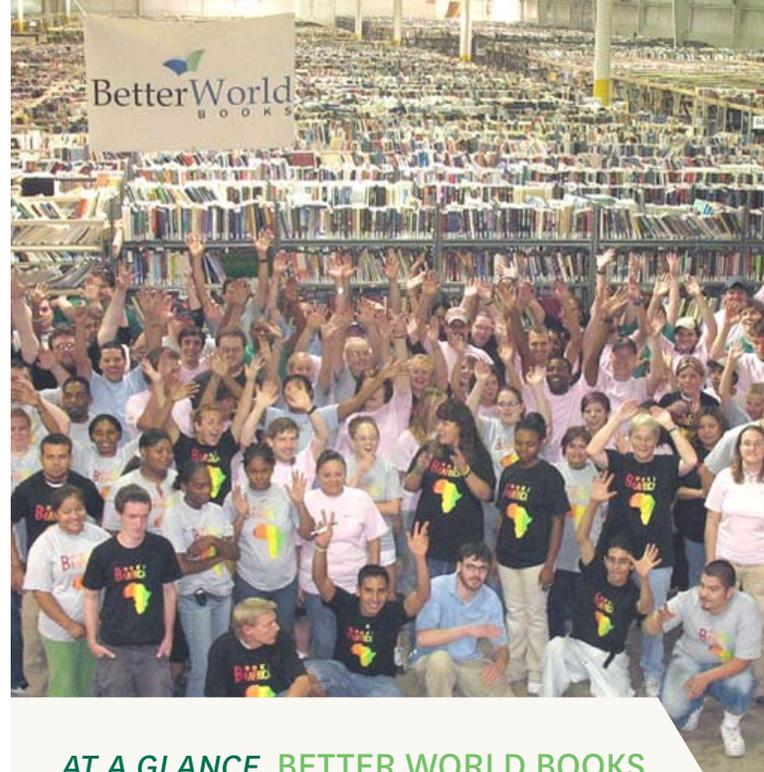
The company has developed an extensive scorecard by which it tracks its social, environmental and financial metrics for continuous improvement, as well as surveying employees annually to get their input.

The recent economic downturn provided the company with a test of its core values. The South Bend / Mishawaka / Elkhart, Indiana area was hard hit by the recession, with deep losses in its manufacturing base. The company met this challenge by stretching to avoid layoffs.

When reducing the workforce by 42 was all but inevitable, the CEO and Co-Founders took a 20% pay cut, VPs took 15%, managers 10%, and floor employees took 5% (without a loss in benefits). Management promised employees that if they hit their target by the end of the year everyone would get a bonus. They delivered.

The company was profitable by the second half of the year and all salaries were reinstated – except the executives’. Murphy says the move to retain the executives’ pay cuts for a year instead of six months prompted questions from employees who thought everyone should benefit from the company’s return to growth. Murphy thinks that the employees’ concern shows that the management team did the right thing by “making the cuts, sacrificing, and communicating,” he said. Openness and transparency with the financials during the downturn was also key in keeping the team intact.

Shared Ownership | Better World Books shares equity with all employees through its incentive stock option program. Each employee receives an initial grant of stock options after one year, followed by subsequent awards based on performance. While Murphy notes some challenges in educating employees about the benefits and risks of sharing equity, small group “lunch and learns” on a range of financial literacy topics have contributed to a



AT A GLANCE BETTER WORLD BOOKS

Business:

Online bookseller of new and used books

Locations:

Alpharetta, GA; Goshen and Mishawaka, IN; Edinburgh, Scotland

Revenues:

\$45 million

Employees:

300

Ownership:

- road based stock options for both employees and nonprofit partners
- bonuses for employees

Engagement:

- comprehensive benefits
- detailed quarterly updates provided to all employees
- engagement surveys

Business result:

- low employee turnover
- increased profitability during economic downturn

more financially savvy workforce.

The company has received outside investment from Good Capital and several angel investors. If there is a liquidity event, the partners expect significant rewards for investors, management, and all employees who hold options. In addition, however, the book seller will have another, more unusual, beneficiary in the deal – its nonprofit literacy partners.

Better World Books had always planned to share gains with these partners – Books for Africa, Room to Read and others – which help the firm achieve its mission of eradicating illiteracy around the globe. When Good Capital invested, they helped the company think through adding the nonprofits, not just as beneficiaries of charitable contributions, but as equity holders.

The CEO and Co-Founders initially created a 5% equity stake with a regular vesting schedule for these nonprofits, based on the promise that if Better World Books could finance their work, the partners would help even more people learn to read. To keep the incentive structure in place, the nonprofits gain a greater equity stake through measureable improvements in their literacy targets. As Good Capital principal Kevin Jones puts it, the social mission is now “baked in.”

Business Results | Although Murphy says that he cannot empirically tie the firm’s employee

engagement practices to better financial results, he points to the company’s turn from unprofitable to profitable during difficult economic conditions as evidence. “Over the past year, our business has done better than ever during a time when we easily could have had losses and high employee attrition,” he said. “Instead, we held together and the fact of shared cuts – later reinstated – kept everyone’s spirits up.”

LESSONS LEARNED:

- **Shared sacrifices and clear communication about the firm’s financial situation during an economic downturn can help maintain morale and may even improve business performance.**
 - **There can be creative solutions for engaging both employees and other stakeholders in company**
-

The Numbers Game

CleanScapes

The Story | At CleanScapes, a Seattle-based waste reduction, diversion and collection service company, it's all about the numbers. Inc. magazine recently named CleanScapes one of the top 5,000 quickest growing companies in the U.S., and the fourth fastest growing environmental firm. The company wants to break into the top 500 next year.

Engagement Strategies | Internally, the company keeps close tabs on important metrics known as “CleanStats,” which are shared with the whole company in a weekly meeting and include operational efficiencies, errors, kudos, and the like. The metrics have been instrumental in helping the firm meet and beat its internal financial performance goals, says Human Resources Manager Bonnie Abbott.

Daily morning huddles by department and dedicated efforts, from top management to entry level employees, have also helped cut missed pickups, accidents and route hours (which drive most of the firm's direct costs including labor, fuel use, and maintenance expenses) down to acceptable and budgeted levels.

While the numbers game helps the firm perform financially, the triple bottom line organization has other broader commitments, too. CleanScapes spearheaded pioneering environmental and civic strategies to clean up and strengthen urban neighborhoods and found innovative ways to reduce the environmental footprint of their clients while saving them money.

The company has partnered with a transitional jobs program to train people “without great job opportunities to come work for our firm,” says CEO Chris Martin. Individuals who might be overlooked at other entry level jobs have found well paying opportunities in the company's construction recycling division and neighborhood beautification team (including graffiti removal and street washing).

Growing steadily since its founding in 1997, the firm now employs 260 individuals, many of whom are entry level and benefit from the opportunity to develop a successful career path. “We have one manager that started with us as an \$8.00 per hour cleaning staff member five years ago,” explains Martin. “He now runs operations for our San Francisco office and is a tremendous asset to the company.”

If numbers are a key driver, so is the company’s outstanding culture. Strategies that preserve and enhance the culture include safety and inspirational message displays that boast kudos from customers and the monthly employee peer-to-peer recognition winners. All employees go by first name, promotion from within is common and checks have been passed out personally as an opportunity to thank employees (although recently more employees have signed up for direct deposit – an important step in improving personal financial management skills). The company also contributes 75% to employees’ health and dental insurance and offers an Employee Assistance Program (EAP). In addition, CleanScapes will soon begin awarding bonuses based on achieving metrics, according to Abbott.

CleanScapes is devoted to cleanliness and cultivating pride in personal and equipment appearance – part of what Abbott describes as their commitment to “becoming the best in the business and about more than just picking up



AT A GLANCE CLEANSCAPES

Business:

Waste reduction, diversion and collection services

Location:

Seattle, Washington

Revenues:

\$50 million in 2009

Employees:

263

Engagement:

- open book management
- generous benefits
- promotion from within
- clearly communicated success metrics
- teams and huddles
- company-wide meetings and celebrations

Business result:

- low employee turnover
- high customer satisfaction and retention

the trash.” She described a recent incident in which a CleanScapes driver helped a customer gather up yard waste so he wouldn’t miss the pickup. “He sent us a letter saying how blown away he was that our employees weren’t put out that he wasn’t prepared,” she said.

There is friendly competition between teams to reduce trash can misses, errors, injuries and other targets. Abbott says the goals frequently rotate, with teams consistently raising the bar for their peers. Employees’ good performance is rewarded with a punch card that, when filled, earns them a stainless steel water bottle with the company logo.

Clear, consistent and open communication is a company hallmark. Drivers join management once a month for lunch to offer feedback and suggestions for improving operations. This communication has paid off in efficiency gains. For example, two employees devised a way to improve truck performance that doubled productivity and cut trip mileage in half. Less wear and tear on city streets and a far lighter carbon footprint proved to be such attractive benefits from the innovation that the company similarly outfitted all of their trucks.

“In all companies, employees are an asset – but particularly in ours,” says Martin. “We’ve got over 100 trucks on the road every day and it’s very important that those trucks are driven by people with high morale and a high respect for safety and the community.”

Business Results | CleanScapes’ laser focus on the numbers has earned the company bonuses from the city of Seattle, a major customer. CFO Chris Husband says the company’s rapid growth and high customer satisfaction are largely due to its team of engaged employees. “The folks in the field are the key,” he says. “Their hard work and positive attitude has enabled our success to date and will determine our success in the future.”

LESSONS LEARNED:

- **Clearly communicated success metrics combined with team rallies, strong benefits, and implementation of employee ideas for process improvement can lead to fast growth, low accident rates, and meaningful environmental and social impacts.**
-

Sweet Treats and Engaged Employees

Dancing Deer Bakery

The Story | The recession that began in 2008 was hard for many firms, especially those dealing in high-end consumer products, and all-natural baked goods purveyor Dancing Deer Bakery was no exception. The company sells directly to consumers via mail-order and the Internet and wholesale to high-end grocers. But founder and former CEO Trish Karter says there is one thing that she can point to that made the difference in the company's ability to weather the downturn: employee engagement.

Engagement Strategies | Dancing Deer Bakery has been lauded as a Boston Business Journal Innovator of the Year, a Forbes "Best Boss" company, and – for four different years before it moved to its current location – was ranked on the Inner City 100 list. An aspect of the business that is consistently recognized in these awards is its triple bottom line approach and fierce commitment to the bedrock principles of the company.

How does the bakery keep employees engaged? Karter ticks off a list: broad based stock options, open-book management and "communication, communication, communication." Karter says the corporate culture is one of "commonality and community" and includes a policy of promotion from within as well as being very open to ideas from any and all employees, which often has resulted in efficiency improvements.

Karter has taken some risks with her hiring practices, including adding former convicts to the payroll. But she says that because she and the supervisory team really get to know employees personally, they have moved up the ladder. One ex-convict is now a high performing supervisor. Many current supervisors once worked on the line. Karter says accommodating employees' after-hours pursuits, such as night school, engenders loyalty and lower employee turnover.

Other benefits available to the mostly entry-level employees include health and disability insurance – including insurance for part time workers (24 hours per week or more) – education reimbursements,

and matching IRA plans. Many of the company's 75 employees live in neighborhoods accessible by bus to the bakery in Hyde Park, MA.

The Human Resources director is part of the executive management team, and Karter says that HR has always been core to the operation of the business. The company practices open book management, which is both challenging when people see the numbers during a downturn but also key to all employees understanding the critical importance of meeting and beating metrics.

The company's open server allows all financial documents to be shared, with the exception of the CFO's budget spreadsheets, and management and supervisors discuss the numbers in depth at weekly meetings. These meetings are an open forum where employees are encouraged to ask questions.

One of Dancing Deer's well known charitable initiatives is the Sweet Home project, in which 35% of the revenues from certain products are donated to local initiatives to help homeless families establish stable lives and move into homes of their own.

Karter says the company's initiatives – from its charitable donations to equity-sharing activities – have been possible because employees understand the company's financial position. "People know where we are on everything," she says.



AT A GLANCE DANCING DEER BAKERY

Business: All natural baked goods

Location: Hyde Park, MA

Employees: 75

Revenues: N/A

Ownership: Broad based stock options

Engagement:

- open book management
- promotion from within
- strong communication at all levels
- HR director part of executive management team
- full time benefits at 24 hours/week

Business result:

- low employee turnover
- strong customer retention
- better results during economic downturn

Shared Ownership | The company started offering broad based stock options as early as 1996. “We see options as not only a financial reward for good work but also a tool to help people understand and manage financial assets long term,” Karter told Business Week in 2007. This is particularly significant for those entry level employees who do not yet have checking or savings accounts. “And we believe that everyone having a stake in the outcome truly makes us a better company,” she says.

About 13-15% of the company’s options are owned by employees other than management. Options are usually awarded based on a formula that is tied to sales rather than an external valuation of the company unless there is a market transaction. If there is growth, employees can cash in their options upon their departure. In some instances when capital has been raised, Karter and other shareholders took a dilution in order to share more with employees. In the event of a company sale or other liquidity event, employees will benefit alongside management and investors.

Business Results | Karter says that Dancing Deer’s all-natural products, community involvement, and fully engaged employees are core to the company’s branding and lead to greater customer loyalty and sales. In addition, practices such as open book management helped employees pull their weight in hard times. “We had a rough couple

of years during the recession,” she said. “We survived because of engagement.”

LESSONS LEARNED:

- Ensuring that all employees clearly understand key financial metrics and how to influence them can make the difference between surviving and failing in an economic downturn.
- A brand that reflects employee engagement, community involvement, and environmental stewardship can engender customer loyalty

Small but mighty

Full Sail

The Story | Full Sail Brewery handcrafts artisanal beers from local ingredients and the pristine waters of the Columbia River. The brewery's engaged team of about 90 employee owners work hard, play hard, and create a product that is "not just good, but insanely great," according to the Full Sail Brand Mantra.

Engagement Strategies | Full Sail hires carefully and cultivates a culture as a resourceful, independent operation. In 23 years of operation, the company has had very little turnover, and many on the management team were promoted from within. The company has always had an open book management philosophy, which increased with its transition to an employee stock ownership plan (ESOP) structure in 1999. One open book strategy is to put potentially confusing financial language into "per barrel" terms – a frame of reference brewers understand.

In addition, human resources are a key part of the executive management team, and the company's current HR director was originally a brewer. CEO Irene Firmat has her reasons: years ago she worked for a large apparel company in which HR was "just a name on the door." She made a lot of money for the company and was rewarded – but not by nearly the amount she made for them. As Full Sail's founder, she wanted to do things differently. Human resources is "a way we approach our assets," she said. "The people we hire are one of the biggest investments we make."

Shared Ownership | This commitment to employees was the main reason the firm became an ESOP, but Firmat stresses that a successful ESOP requires a great deal of care and intention. "You can't just say you're an ESOP and it just happens," she explains. "Part of the challenge is to get people to talk about it so that they appreciate the opportunity they have as owners rather than merely having a sense of entitlement."

The company carefully manages the education of employees in their rights and responsibilities as owners. At six months, new hires sit down with a supervisor to talk about why he or she should

become vested. Managers frame equity sharing as a privilege to be earned.

In addition to shares in the ESOP, employees receive performance bonuses tied to individual goals and overall company financial results. Firmat says she challenges employees to think carefully about the contribution they are making in exchange for receiving an equity stake in the company.

While the ESOP has helped those employees who were already engaged to become more so, Firmat says the effect isn't across the board. "For the group of people it really inspires, you get some extraordinary outcomes," she said. "And for some it can take more time to understand that they are truly owners, yet we have found that they have become more thoughtful about how to use resources and waste less."

Business Results | When it comes to measuring the impacts of employee ownership and engagement, Firmat mentions low employee turnover, but stresses the importance of hiring carefully and keeping only those employees who are adding value and contributing to the company culture. Another impact is great customer service. Full Sail's engaged employee owners are passionate about great customer service and know that "every interaction is a chance to win that customer for life," she says.

While positive customer interactions can be an excellent indicator of a strong internal culture, recession survival can be revealing, too. The



AT A GLANCE FULL SAIL

Business: Regional craft brewery

Location: Hood River, OR

Revenues: N/A

Employees: 90

Ownership: Employee stock ownership plan (ESOP)

Engagement:

- open book management
- performance-based bonuses
- high involvement hiring
- promotion from within
- clear communication
- encouraging responsibility and decision making at all levels
- HR director part of executive management team
- culture of respect and trust

Business result:

- low employee turnover
- lifelong customers
- increased profitability during economic downturn

most recent downturn caused a jump in barley and hops costs, which could have driven up the price for Full Sail's beer – already a luxury item.

Firmat issued a challenge to increase efficiency and reduce costs, thus avoiding a price hike and keeping the company competitive. Supervisors worked with their teams to flesh out a cost-cutting strategy from the ground up. Ultimately, the company beat their projections by year's end – and sales increased by 20% despite the downturn. "It was really cool to see employees take ownership of it," says Firmat, who noted that employee-led innovation, rather than management, was a big point of pride.

Employees have demonstrated their commitment to Full Sail in other ways. Devoted outdoor enthusiasts who are passionate about sustainability, employees have spearheaded a range of internal green initiatives garnering local and state recognition while saving the company money, including:

- A four day workweek (four 10-hour shifts), reducing power consumption and water use by 20%
- Energy efficient lighting and air compressors saving 400,000 kWh of power annually
- Practices that reduce water consumption by 3.1 million gallons each year (only 3.45 gallons of water used per gallon of beer produced, compared to industry average of 6 to 8)

Full Sail's engaged employee owners enable this small, independent brewery to remain competitive. Firmat makes it sound easy. "At the end of the day it is about treating people with respect, communicating well, and finding ways to use our resources most efficiently," she says.

LESSONS LEARNED:

- **Be sure an ESOP is right for your company; if so, put the time and effort in to ensure its success**
- **High-involvement hiring is key to maintaining a strong company culture.**
- **Engaged and empowered employees can often create successful strategies to increase efficiency and profitability.**

Growing a Strong Employee Culture

groSolar

The Story | groSolar, headquartered in White River Junction, VT, is a company that makes the story of “triple bottom line” (people, planet, profits) easy to tell. The 152-employee firm is fast growing, has a product that saves money and energy, and works to instill a strong culture of employee engagement across multiple locations. The company is a leading designer, installer, and distributor of efficient systems for solar electricity and solar hot water nationwide. With a network of warehouses across the U.S., groSolar is the largest 100% US owned distributor.

CEO Jeff Wolfe says the company’s aim is to put “as many solar panels as we can on as many roofs as fast as we can.” And although they are doing just that, employee motivation comes from a deeper sense of purpose. “People are willing to contribute to a larger good when it matters to them,” says Wolfe.

Engagement Strategies | groSolar has twice been recognized as a Best Place to Work in Vermont. Employees receive 70%-80% employer-paid healthcare. About 80 early employees hold stock options. And employees receive a discount on solar panels. The relaxed work environment means there’s no time clock or dress code, and well behaved dogs are allowed at work – perks that are not taken for granted and demonstrate trust, according to Human Resource Director Shelly Bragg, who is part of the executive management team.

Careful hiring is another key practice. Bragg interviews 95% percent of potential hires not just to confirm their readiness for the job but to be sure they “absolutely fit with our culture,” she said.

Continuous communications and career path opportunities are other important parts of the groSolar model. Management leads monthly webcasts where Wolfe shares specific details of the company’s performance and the broader solar market. “We talk about the numbers at a high level and share successes and challenges,” he explains. “The hardest thing at a company is communication, especially when you are spread across the nation. We let people know that if you

don't know something, probably no one else knows it either, so that people in remote offices don't have the feeling of being left out."

Wolfe makes it a point to sometimes announce strategic or interesting news from a field office rather than always at HQ. "I spend a lot of time on the phone, and I try to respond quickly to emails and share information with others," he said. The company also has a monthly newsletter to communicate key developments.

Wolfe notes that phone conferences and, increasingly, webcasts have improved intra-office connectivity. Video conferencing was added after a survey revealed that employees wanted the company to take more steps to better unite remote offices. Employees at all levels also visit other locations for training and sharing of best practices. "We're strong believers in the face to face," says Bragg.

In addition to flexible work schedules, the company has stepped in to help coordinate carpools. In one case, four employees were able to save more than \$100/week by carpooling. In addition, the company offers the option to telecommute, which Wolfe says has allowed them to attract and retain strong employees. "They work very hard for us as a result."

Given its size and capacity, groSolar offers an important perspective on the workforce development needs of the new green economy.



AT A GLANCE GROSOLAR

Business:

Residential and commercial solar installation

Locations:

White River Junction, VT

Employees:

152

Revenues:

\$57 million in 2009

Ownership:

Broad based equity sharing for early employees

Engagement:

- clear communication of core values
- HR Director part of executive management team
- flexible work schedules and telecommuting
- extensive training
- strong benefits
- culture of trust and respect

Business result:

- excellent customer retention
- increased ability to integrate acquisitions

“We need people with solid skills that we can train,” Wolfe explains. “At our rate of expansion, we’re inventing a lot of processes. So the competence of our people may well be the difference between our success and failure in the downstream solar markets.”

He adds that workforce development and educational institutions must be tuned to “what business really needs.” In the meantime, groSolar has sometimes taken a role in training local contractors in green building design, such as when the headquarters location installed solar panels and other green features. Bragg notes that helping build local skills will ultimately pay dividends to the company in increased business.

Business Results | Its culture of engaged employees has been key to groSolar’s fast growth and ability to smoothly integrate multiple acquisitions across the U.S. over the past five years. The bottom line for this fast growing green economy company is its people. “Everyone says this, but employees really are our most important resource,” says Wolfe. “We ask a lot of them and reward them well.”

LESSONS LEARNED:

- **A strong culture of employee engagement can be carried across multiple company locations with care, conference calls, travel, and excellent communications.**
-

Fast Growth Through Engagement

Namaste Solar

The Story | Namaste Solar, a Boulder, Colorado-based solar integrator, has racked up recognition for its sustainability efforts and sector innovation from local business journals, the national press, even President Obama. The five-year-old company has grown fast, earning more than \$15 million in revenue in 2009 and growing from three employees to 70.

Co-Owner and Chief Financial Officer Stephen Irvin credits the company's flat management and broad based equity sharing as key to the firm's rapid rise. "Our ability to handle breakneck growth is helped by our shared ownership structure – everyone is thinking and engaged each day in running the business with an eye on our collective mission and values," he said.

Engagement Strategies | Irvin notes that the hiring process is a long one at Namaste, where care is taken to hire a long-term partner in the business. "We hire the person and their values, not just the job role," he says.

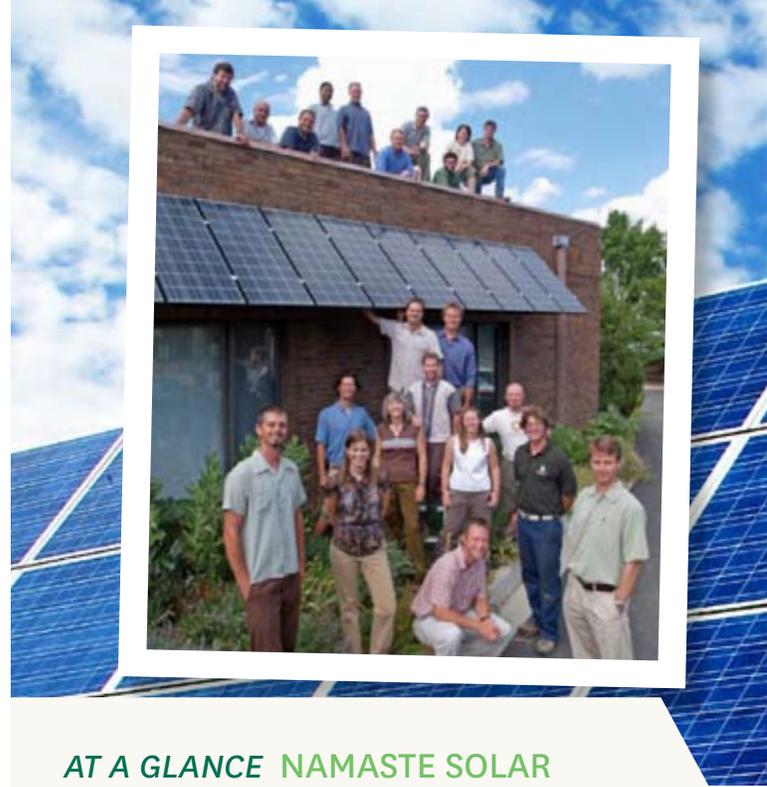
The company practices open book management and uses consensus based decision making. Company financials are reviewed in a monthly staff meeting and at the end of the year, and all employees are taught to read a balance sheet and income statement. All employees were paid the same in the early years; today, no one can make more than twice the lowest paid employee. Compensation is determined by a committee, whose work includes peer-to-peer interviews across the company's divisions and salaries are known by all co-owners.

Clear communication is a core value at the firm – so much so that Namaste has trademarked FOH™ – frank, open, and honest communication. This approach prevents gossip and results in any issues being resolved quickly and respectfully, fostering an atmosphere of trust and respect, according to Irvin.

In addition to its internal engagement strategies, community service is important to Namaste. The company sets aside 1% of revenue for donations to install solar at nonprofits, and employees set aside time to participate in educational programs targeted at a variety of audiences, from consumers to professionals, about solar energy. Drawing on the definition of the Sanskrit word Namaste, the company strives to be a model of harmony between all stakeholders. Its stated values are “care of the earth, care of our customers, care of the community, care of the company, and care of ourselves.”

Shared Ownership | Namaste is somewhat unusual in its broad based equity sharing practices – encouraging all full time, salaried employees to buy restricted stock immediately upon hire, as opposed to the more common practice granting employees stock options (the ability to buy stock in the future at a price set today). Employees become fully vested in five years. There are no majority stock holders and over 90% of employees hold stock. Ownership also helps with employee retention, as employees are keen to watch the stock price of the company increase.

Business Results | Namaste’s culture of engaged employee owners is a key competitive advantage, according to Irvin. Employees think and act like owners, whether installing panels on the roof of a home or managing administrative functions. Satisfied customers



AT A GLANCE NAMASTE SOLAR

Business:

Residential and commercial solar installation

Locations:

Boulder, CO

Employees:

70

Revenues:

More than \$15M in 2009

Ownership:

Employees purchase restricted stock with full voting rights

Engagement:

- high involvement hiring
- clear communication of core values
- open book management
- democratic decision making
- culture of respect and trust
- community involvement

Business results:

- low employee turnover
- superior customer service and satisfaction

naturally respond to this by making referrals. Over half of the company's sales come by word of mouth and the firm routinely racks up strong customer survey responses. The company also excels in employee attraction and retention – only three employees have left in five years.

LESSONS LEARNED:

- **High involvement hiring, shared ownership, clear communication, and a culture of respect are key to managing fast growth**
-



Continuous Improvement for Remarkable Interactions

PrintingForLess.com

The Story | PrintingForLess.com does more than the competition when it comes to creating a culture of shared ownership and teamwork. This fast-growing, 150-employee printing company near Bozeman, Montana has fully embraced high performance strategies like open book management and employee ownership through broad-based stock options – and it’s paying off.

Engagement Strategies | There are many strategies the printing shop has developed to help its culture evolve. An assessment given to all employees identifies their preferred communication style, which helps co-workers know how best to approach each other. New employees are required to read and sign an agreement with the company’s mission and values statement, which includes such principles as “high performance,” “extreme customer service,” and “buoyant, indomitable optimism.”

Part of this statement – the company’s strict “no gossip” policy which helps promote a strong team culture of trust and respect – was described in a recent New York Times blog post. It resulted in “a ton of phone calls asking how we do it,” says Suzie Lalich, Human Resources and Benefits Director.

The company also frequently promotes from within and provides many opportunities for entry level employees to advance. Lalich says the company prefers promoting existing employees over hiring those from outside – unless they need particular new ideas and skills. “We’ve had a lot more success with people fitting into our culture in middle and upper management when they move from within,” she explains.

In addition to constantly updating financial targets on employee’s computer dashboards, other open book management techniques include daily huddles, clear and regular communication of goals, and accountability.

Employees undergo eight to 10 weeks of training. To promote cross-department communication, the company held a video contest, inviting employees to submit videos that describe their work in a creative way. PrintingForLess University, another internal resource, lets employees gain instruction on such company skill sets as online processes and machine repair.

Corporate stewardship towards the community and the environment are demonstrated through company based clothing and food drives. The company is 100% wind powered. And a budget is available for the company to make contributions when employees participate in charitable events of their choosing.

Finally, PrintingForLess, which has won numerous awards for its fast growth, excellent management practices, and superior customer service, makes its employees' lives easier and more enjoyable with its onsite daycare and policy to permit well behaved dogs at work.

Shared Ownership | PrintingForLess.com's strong company culture is reinforced by shared equity, a structure that was important to CEO Andrew Field. About 20% of the firm's equity pool is distributed broadly to all full time employees in the form of incentive stock options (ISOs). The concept of shared ownership is "communicated over and over to employees," says Lalach. "They know they have a stake."



AT A GLANCE [PRINTING FOR LESS.COM](http://PRINTINGFORLESS.COM)

Business:

Web-based printing services

Locations:

Bozeman, MT

Employees:

150

Revenues:

\$57 million in 2009

Ownership:

Broad based stock options

Engagement:

- open book management
- clear communication of core values
- promotion from within
- extensive training
- performance based bonuses
- community involvement

Business result:

- low employee turnover
- high customer satisfaction and retention

In addition, all full time, regular employees are eligible to receive bonus compensation quarterly. The self-funding bonuses are based on specific criteria related to the overall business performance. Senior management meets each quarter to determine which three of nine standard metrics to focus on, such as customer retention or sales. The summer quarter of 2010, for example, had the theme of “continuous improvement for remarkable interactions.” Each of the three metrics can be met at a low, medium or high level. If all three are met at the highest level, 100% of the bonus is paid; proportional bonuses are also awarded for meeting some combination of the lower goals.

Business Results | PrintingForLess.com’s engagement practices are a strong factor in the firm’s growth and financial results, says Lalach, which are measured through the firm’s ability to pay out the self-funding bonus pool, excellent customer retention (a page on the company website is devoted to video and written customer testimonials), and a customer referral metric. Average employee tenure at the still relatively young company is about 5 years and voluntary turnover is considerably below average, according to Lalach.

When asked if the company’s practices helped them weather the recession, the answer was an unequivocal yes. “There was fear but because of our open book management employees knew how the company was performing

the whole time,” says Lalach. “Understanding what the company was going through contributed to less unease among employees.”

Although the recession made some layoffs a necessity, she was quick to note that open communication countered employee speculation about their job status. And former employees often stop by to visit – a testament to the PrintingForLess.com approach to running a business.

LESSONS LEARNED:

- **A strong and well communicated culture motivates employees and pays dividends.**
-

Hire Right and Promote from Within

Red Door

The Story | When someone at Red Door Interactive does a good job, a fellow employee will give him or her “mad props” – the firm’s term for recognition and praise. It’s just one of the ways the tight-knit corporate culture at Red Door Interactive has helped propel the internet-technology company’s lightning-fast growth. Amy and Reid Carr launched the award-winning firm in San Diego in 2002. Red Door specializes in creating websites and managing the Internet presence of local and national brands.

Engagement Strategies | The company places a premium on promoting from within and looks to create new roles based on employees’ strengths and the needs of the firm. Amy Carr, Executive Vice President of Human Resources, says Red Door prefers to “develop a bench” by hiring carefully at entry-level followed by intense training and cultivation into more senior positions. This way, she explains, upper management is fully engaged with the company’s customer service-focused culture.

Five of Red Door’s 53 employees are entry-level. Most, however, have undergraduate or advanced degrees in their specialization. Trainings for management and non-management are offered frequently and range from job function related skill building to approaches to conflict resolution. At the end of 2009, 36% of employees had participated in a management training program. “Our challenge has been to develop those people into managers and create the structure where there is opportunity for people to develop in their careers,” says Carr.

The core company philosophy involves maximizing peoples’ strengths and helping them follow their interests and affinities as long as they match needs of the company. “There are lots of opportunities for people to become experts in new things,” says Carr. “And we always try to put people in the right roles.”

Learning and growing is part of the corporate culture at Red Door. Every fall, the company's president asks employees for a list of things they should start doing, stop doing and keep doing. "We're looking to improve the number of 'keeps,'" says Carr. Employee-cited "keeps" from 2009 include Red Door's 360 degree reviews, employee recognition and rewards, the company's core values, and its work/life balance flexibility.

To give non-managers a chance to take the lead, Red Door instituted several committees, including the Morale and Culture committee. This group keeps the office lively by organizing holiday parties and cook-off contests. In 2010, the committee investigated wellness program options. Employees may also nominate one another's outstanding performance using a peer recognition tool that is displayed on the company's internal computer network. One nominee per quarter earns a paid day off.

Carr describes the company's employees as members of "Generation Y" who "really want to participate in success and have their voices heard." Although company equity is not shared broadly, Carr and the rest of the management team developed a variable pay plan with a cash bonus that aligns compensation with company performance. "Our business model is to provide value to clients," says Carr. "We want employees to understand what they do that provides value."



AT A GLANCE RED DOOR INTERACTIVE

Business:

Internet presence management

Location:

San Diego, CA

Employees:

53

Revenues:

\$10.4 million in 2009

Engagement:

- high involvement hiring training
- promotion from within
- performance based bonuses
- engagement surveys
- employee recognition programs
- HR Director part of executive management team
- culture of trust and respect
- community involvement

Business result:

- low employee turnover
- increased profitability during economic downturn

The variable pay plan is based on five key company metrics, emphasizing customer satisfaction, three internal metrics around sales and profit margin, and a final metric around utilization of people. The cash bonus, based on hitting those metrics, is awarded based on a percentage of salary.

Other benefits include a no wait period on the company's 401(k) retirement plan and a health savings account with company contribution. Red Door offers flexible work schedules, which Carr says the Gen-Yers value and helps the firm show trust and long-term investment in employees.

Such benefit programs and engagement tools are linked to the company's clearly communicated core values and business outcomes. Their corporate credo: Inspire, Share, Evolve, Exceed, and 100% Jerk Free (i.e., encouraging each other to take chances; fostering flexibility, open-mindedness, forward-thinking concepts and taking creative and strategic risks; and maintaining a culture of open-minded acceptance and respect 100% of the time). The company is in the process of further quantifying these values to demonstrate their impact on sales, revenues and other performance indicators.

Business Results | Since its founding, the company has had strong year over year growth, expanding by 40% in 2008, with \$10.4 million in annual revenues in 2009. At the same

time, the company's focus on strong human resource practices has resulted in numerous awards, including Inc. Magazine and Winning Workplaces' Top Small Company Workplace in 2010 and San Diego Business Journal's Best Place to Work for the past four years running.

Employee average tenure is a little over three years, but this number is relative. Due to the company's high growth, there have been many recent hires. Some Red Door employees have been with the company since its founding. And as the corporate credo states, "We're 100% jerk-free," Carr says. "If we hire a jerk, other good people will leave. It costs five times more to replace the jerk."

.....
LESSONS LEARNED:

- Hire carefully, train, and promote from within to ensure upper management is aligned with the company's customer service-focused culture.
- Align compensation with company performance on key metrics.
- Employee engagement surveys are one tool for continuous improvement.

A mission-based for-profit

The Redwoods Group

The Story | Founder, President and CEO Kevin Trapani of The Redwoods Group, a specialty insurance provider, was told when he started his business that it would never work. Especially his dream to create a social business model, inspired in part by *Soul of a Business* by Tom Chappell. But Trapani, who as a young person often heard his parents say that “to whom much is given, much is expected,” persisted in his vision. Today the company earns a sustainable profit and fulfills its social mission by donating a minimum of 10% of pretax profits each year to charity.

According to the company’s website, a key component to The Redwoods Group’s business model is to choose markets that are underserved and whose decision makers both resonate with the firm’s social mission and will adopt recommended risk reducing practices. For this reason the firm only works with YMCAs, Jewish Community Centers, and nonprofit resident camps, and actively trains these customers to develop a “culture of safety.”

In 2007, the firm sold a division and used most of the proceeds to help fund The Redwoods Group Foundation, a separate entity, which gives out about \$700,000 in grants to nonprofits each year. Equally unusual, the company is comfortable reporting a loss (its first was in 2008) and will not pursue short term gains to avoid it. Facing a \$66,000 shortfall one year, the firm dipped into reserves rather than lay off a single employee, and there were no layoffs or benefit reductions during the recent recession.

Engagement Strategies | The privately-owned company’s motto, *Serve Others®*, is reflected in its relationships to its employees, its clients, and the larger community. Redwoods’ 85 employees are required to spend 40 paid hours a year performing community service with an organization of their choice. If they spend more time, the company donates ten dollars per hour spent to the charity.

The company is firmly committed to parity in salaries and benefits. The CEO’s salary is no more than 10 times as much as the lowest paid employee. Employees’ 401(k)s are matched dollar

for dollar up to 6% and employees making \$35,000 or less have 100% of their health care insurance premiums paid. Those making between \$36,000 and \$40,000 have 90% of their premiums paid. One entry level employee told Trapani that having the company pay a larger share of the premiums (so that she didn't have to rely on Medicaid) "saved her dignity." Redwoods also subsidizes the cost of college education for employees' children up to \$5,500 a year.

In addition to generous benefits, the company shares profits – and turns the usual corporate bonus structure entirely upside down. The first employees to be awarded bonuses are lower level employees, then management, then executives. Bonuses are two-part: first, almost all employees in good standing receive them on an annual basis, depending on that year's profitability. The second part is a company-wide, performance-based merit pool where all employees benefit when the firm meets certain goals. Broad based equity sharing is part of a longer term plan, but will not be put in place until, Trapani says, they can find the right way to do it.

The Human Resources director is part of the executive management team. Trainings, mostly led internally, are a constant. Trapani sees the company's HR staff as coaches: employees that need to address a problem are encouraged to go to their supervisors. To make communication more effective,



AT A GLANCE THE REDWOODS GROUP

Business:

Specialty insurance

Locations:

Morrisville, NC

Employees:

85

Revenues:

\$11.6 million in 2009

Ownership:

- extensive training
- clear communication of core values
- strong benefits
- HR Director part of executive management team
- paid time off for community service
- profit sharing
- performance-based bonuses

Business result:

- low employee turnover
- superior customer retention

supervisors and employees each participate in an annual self-assessment of strengths and weaknesses, which is followed by a gap analysis, then targeted problem solving. According to Trapani, the gap is smaller each year.

In addition, The Redwoods Group, a certified B-Corp, has conducted a social audit every year since 2004 as part of its annual report to report on the company's mission-related performance, including successes and progress as well as areas for future improvement. The firm was named a 2009 Best Place to Work in Insurance.

Business Results | Turnover at the firm is also very low at about 5% annually. Many employees have been with the thirteen-year-old company 10 years or more. Most promotions are internal and Trapani says employees are "happy to move into more demanding jobs."

Customer retention is also consistently high from year to year. In 2009, at the heart of the recession, the company had budgeted for 85% customer retention but achieved 91%. In a non-recession year, customer retention has been as high as 97%.

Other metrics have been strong for the company as well. The insurance market has been soft for a number of years and industry-wide loss ratios reached 80%

last year. However, Redwoods' rate was 50% (meaning that only 50 cents of every dollar is spent on losses rather than 80 cents). Uncharacteristically for an insurance company, Redwoods actively works with and offers trainings to customers to change operating behavior to reduce risk.

The Redwoods Group's employee and community engagement clearly differentiate it from industry peers. Trapani says the firm is more influenced by the writings of Dr. Martin Luther King Jr., the civil rights leader, than Tom Peters, the famed business management coach. The lesson in Dr. King's teaching, Trapani says, is "how to subordinate yourself to others to demonstrate caring."

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LESSONS LEARNED:

- **Choosing the right markets to serve and screening customers who will adopt risk reducing practices is good business in the insurance industry.**
- **Serving employees, customers, and the community well can lead to excellent employee and customer retention and better than industry average performance even in an economic downturn.**

“Best Job You’ve Ever Had”

Ryla

The Story | With explosively fast growth since its 2001 founding, Ryla has been recognized on Inc. magazine’s list of high growth companies for four consecutive years. Revenues climbed steadily from less than \$1.1 million in 2002 to over \$100 million in 2009. The number of employees increased from 20 in 2002 to more than 3,500 today, the majority of which are entry level positions. Ryla was also lauded as a Top Small Workplace in the U.S. by *The Wall Street Journal*, and one of the top 500 African American Owned Businesses in the U.S. by DiversityBusiness.com.

Engagement Strategies | How did they do it? One piece of the puzzle is the company’s extraordinary corporate culture that emphasizes employee engagement and involvement. Headquartered in Kennesaw, GA, Ryla provides call center services and other customer care solutions for large- and medium-sized corporate customers. Service is delivered by a highly motivated workforce, trained to focus on courtesy and empathy when interacting with customers (the company motto, emblazoned on the wall of the office, is “Excellent Interactions Every Time”). The agents’ friendly attitude is ideal for clients that strive to differentiate themselves through superior customer interactions.

While Ryla’s success is aided by a strong operations platform and cutting edge technologies, the employee-focused culture stands out as the distinctive competitive advantage of the organization. Workforce development strategies include comprehensive recruiting, extensive training, promoting from within, team-based operations, onsite cafe, a 401(k) plan with company match, and health benefits.

The company long held spontaneous “huddles” or stand-up meetings in which Mark Wilson, the firm’s founder and former CEO, updated everyone on the latest business developments. Wilson also personally attends at least one session of the extensive new employee trainings. One of the great successes of Ryla has been its ability to scale its culture as it grew to 175 times its original size. Wilson says the company now conducts daily huddles led by each department head as a way

of keeping the engaged culture even as the firm grows. “It takes more of my time,” says Wilson, “but it is well worth it.”

Ryla’s work environment buzzes with a palpable friendliness and vibrancy, a tone first established by Wilson. He said that creating an atmosphere where our people feel it’s “the best job they have ever had” is an essential element of Ryla’s business model. Employees say that the tone of mutual respect is key to attracting and retaining a loyal and committed team.

Shared Ownership | Stock options were shared broadly early on; twelve employees, or half of the original team, were still with the company at the time of the 2010 merger and gained significantly. They include Siovan Williams and Cathy Daniels. Neither has a high school degree and both started as agents on the phone and then were given the opportunity to train for higher paid, higher skill positions.

Williams moved first to training new agents and then helped pioneer the reporting department, where she mines and interprets data both for internal use and for clients. Without a college degree, Williams says her opportunities at the firm have been tremendous. “It’s almost unfathomable for someone with very little professional experience to have such incredible training and opportunity,” she said. Williams received approximately \$18,000 as a result of the recent transaction, allowing her



AT A GLANCE RYLA

Business:

Customer contact management

Locations:

Kennesaw, GA (headquarters) and Saraland, AL

Employees:

More than 3,500

Revenues:

101 million in 2009

Ownership:

Monthly performance bonuses, stock options for early employees

Engagement:

- high involvement hiring
- extensive training
- promotion from within
- employee rewards and recognition
- community involvement
- culture of trust and respect
- clear communication of core values
- subsidized meals at onsite café
- monthly performance bonuses

Business result:

- customer satisfaction/retention
- outperforms industry in employee tenure

to complete critical home repairs that would have been difficult to finance otherwise.

Daniels also went from an agent on the phone to the technology side of the business and notes that the company does an excellent job of promoting from within and training people in new areas. “It would be easier to bring people in from outside but they are committed to growing existing employees,” she said. Daniels said holding stock options was a significant motivator for her over the past few years. “I felt more a part of the company as a result of having options,” she says. The windfall she received from cashing in her options this year allowed her to make home and car repairs and pay off several bills.

Business Results | Ryla’s many employee engagement practices add up to improved bottom line performance, including fast growth and much lower than usual employee attrition rates – an important differentiator for an industry known to struggle with 100% and higher annual turnover.

Ryla’s attractive workplace culture also helps the company scale faster than its competitors when new projects arise. The company’s own employees often recruit friends to work at Ryla when the firm is ramping for a new project, and new employees are often willing to work for a onetime project with the hope of becoming a permanent employee at this special company.

LESSONS LEARNED:

- An authentic culture of mutual respect created and reinforced by top management, coupled with frequent and clear communication of the company’s core values, can result in a dynamic and successful workforce that outperforms its competitors.
- A strong workplace culture can be scaled with intention and effort as the company grows: for example, holding seven huddles to share good news rather than one.
- Investing in entry level workers with extensive training and promoting from within can be a good strategy for maintaining an excellent customer service-focused culture.

A Fantastic Culture

Salvage Direct

The Story | Salvage Direct’s founder Bob Joyce set out in 1998 with the ambitious goal of revolutionizing the salvage vehicle settlement process. In time, that goal was reached through the company’s pioneering use of on-line auctions for cars, trucks, motorcycles, boats and recreational vehicles and technical innovations that reduce “salvage-to-settlement” times and maximize sales proceeds to insurance companies. Salvage Direct’s environmental impact is also significant and includes recycling and parts reuse for 49,000 salvage vehicles in 2009 alone.

Equally significant is the company’s local economic impact. The firm created 145 high quality jobs, mostly in rural Titusville, PA, an Appalachian town of 6,000 people with limited employment opportunities. Dan Hoversten, former CEO, said the company is one of the “five top employers in the town.”

Engagement Strategies | Salvage Direct jobs are highly coveted for their competitive salaries, good benefits including 100% employer-paid health, life, and disability insurance for employees (additional family members can be added at a small premium), matched 401(k)’s, continuing education assistance, opportunities to work in a high tech business and broad-based employee stock options. Eighty-three of the company’s jobs are entry-level positions and 79% of employees participate in the retirement savings plan.

Employees also share in one of two annual bonus pools (upper management is separate). “We made it clear the bonus was not a gift – if the company did well and the board signed off, then it would be awarded,” Hoversten explained. Nonetheless, awards were given out every year under Hoversten’s four year turn as CEO.

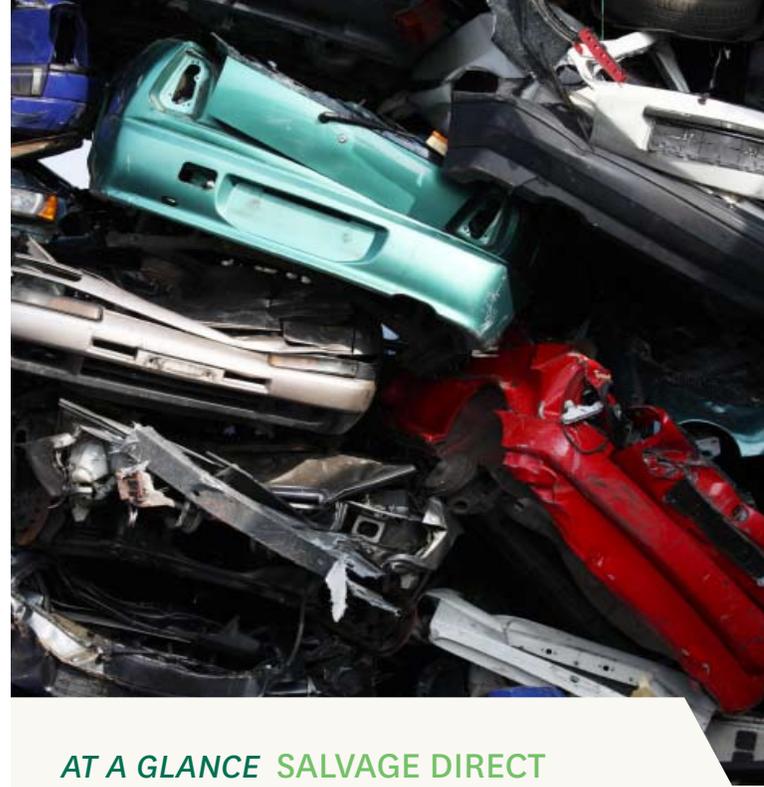
“In 2006, the first year it was awarded, we had people in tears over \$1,300 bonuses” he recalled. “People used it for Christmas to buy toys for their kids and pay off their bills.” The company always tried to award the bonuses for non-management in December for that reason, even though

the company's books were not closed for the year. Management received their bonuses in January.

A strong employee culture based on what Hoversten called "mutual respect" is one of the company's most outstanding features. Far from a staid work environment, though, Hoversten said "we had a good culture - we worked hard and had a lot of fun."

To show employees how valued they are, the firm throws a big annual party with plentiful food and entertainment for customers, employees, and families. Employees get to play golf at a cut rate each Tuesday and employee retirements or going away parties are celebrated at a local brewery. Employee inclusion is cemented in matching company gear - a \$50 credit towards the purchase for Salvage Direct apparel makes people "feel like part of the organization," said Hoversten.

Shared Ownership | Many non-management employees were part of the broad based stock option plan when Salvage Direct was acquired by the nation's largest independent salvage auction company, QCSA Auctions, in May 2010. Besides providing strong returns for its investors, Salvage Direct's sale resulted in meaningful cash distributions to 67 employees. Fifty-eight non-senior management employees received average net cash proceeds of \$7,632 from their stock option shares - a highly impactful award for



AT A GLANCE SALVAGE DIRECT

Business:

Salvage vehicle management

Location:

Titusville, PA

Employees:

145

Revenues:

\$21 million in 2009

Ownership:

Broad based stock options,
annual bonuses

Engagement:

- promotion from within
- strong benefits
- employee rewards and recognition
- culture of respect and trust
- annual bonuses

Business result:

Currently the third largest company in the salvage vehicle auction industry

employees averaging \$32,596 in annual salary. Hoversten said most people will pay off bills and buy major appliances with the proceeds. The buyer currently plans to retain all Salvage Direct employees and maintain the jobs in Titusville.

Business Results | Salvage Direct grew to become a significant player in the Mid-Atlantic region, a national competitor for catastrophic event response, and one of the largest sellers of salvage vehicles in the U.S., ranking among the top five in the industry by volume sold. The firm's team of engaged employees helped grow the company to the point where it was attractive to industry leader QCSA.

LESSONS LEARNED:

- A culture of working hard and playing together can help build a strong team.
 - Paying out bonuses prior to year end is meaningful to non-management employees
-



Quality Through Ownership

The Signature Group

The Story | Michael Perdue, CEO of The Signature Group (TSG), would not hesitate to tell you that there is a clear link between his company’s employee engagement strategy and their bottom line. In fact, he says that “every company in America should be employee owned.”

TSG, founded in 1997, provides information technology consulting, project management and support services. It’s the kind of company where the CEO wants all employees to act, think and feel like owners. Equity is broadly shared in the form of stock options; about 6% of the company’s shares are distributed to the employees each year for their contribution to the growth and reputation of the company.

Engagement Strategies | The company’s primary competitive advantage is its “Culture of Excellence” which results in high quality of service and solutions that are delivered on time, on budget, and with the ability to scale flexibly as the client’s needs grow. The Culture of Excellence includes the core values of excellence, passion, integrity, teamwork, respect, accountability and innovation. According to the company’s website, every clients’ project is engaged with a “never quit, never die attitude” that ensures the highest level of quality. And Perdue stresses that employees are high-performing and held to account by their peers. “Performers fit right in and we hold onto them,” he says. “Dead wood doesn’t last long.”

Shared Ownership | Perdue says TSG thrives on the link between employee ownership and the bottom line. The company was founded on the idea that no one person would have a controlling interest. In fact, the top executive’s personal stake has gone from 39% originally to 22% today, with employees gaining the difference. “But my current 22% is worth much more than the original 39% since the company has grown,” Perdue stresses. “And without broad ownership, we would not have weathered the economic downturn.”

All of the company's 50 employees are full time and participate in the equity plan, which is based on a fixed and "well-defined matrix." Grants are distributed at hire, each quarter based on individual performance on business development and project execution goals, and on a discretionary basis according to achievement.

Each year, the Board approves an option distribution rate tied to goals set within the annual business plan. Depending on how the company is performing against this plan, a percentage of the predetermined rate is distributed (for example, meeting a goal by 80% means 80% of the overall company rate of 6% would be distributed; at 120% of target the company would distribute 120% of the 6% rate). Although the formula is fixed, there is some flexibility. For example, the distribution rate was increased when the company moved into an aggressive growth position and began significantly increasing staff. Employees are able to exercise options or sell their shares on a quarterly basis via a self-funded internal stock market, and employees participate in an orientation as well as ongoing education about the value of the ownership plan.

When done well, CEO Michael Perdue says employee ownership is "directly reflected in the company's financial performance." But he stresses that if incentives are not clearly linked to hitting milestones and communication is unclear, distributing stock options broadly merely dilutes existing owners.



AT A GLANCE THE SIGNATURE GROUP

Business:

IT consulting, project management and support services

Location:

Vienna, VA

Revenues:

\$10 million

Employees:

50

Ownership:

Broad-based stock options

Engagement:

- extensive training
- strong benefits
- clear communication of core values

Business result:

- low employee turnover
- high client retention and satisfaction,
- strong performance during the recent recession

Business Results | The company’s philosophy is shared internally and recognized externally. Quarterly reports have a section dedicated to describing the ways that employee ownership helps benefit their sector. And, for seven years in a row, TSG has been lauded by Microsoft and CISCO for customer satisfaction. Perdue says that recognition is directly attributable to the employee ownership program, since all clients are served by employee owners who are incentivized to focus on customer satisfaction.

Perdue grew up in Huntsville, AL, where employee-owned innovator SAIC had a major presence. He has worked both for employee owned companies and non-employee owned companies. Based on his experience, employee ownership is extremely valuable. “It’s amazing to see examples of the benefits of employee ownership manifest where [one] wouldn’t expect it,” says Perdue. He recalls a few years back when an all-hands-on-deck team, from senior staff to the receptionist, worked over the weekend to meet a tight deadline on time. The team didn’t burn the midnight oil to be nice. “They wanted to be part of the stock option distribution associated with getting the project done.”

LESSONS LEARNED:

- **Tie incentives such as broad-based stock options and bonuses to employee and company performance for maximum benefit.**
-

Building a Smart Company Culture

SmartPak

The Story | Fast growing companies would do well to pay close attention to creating a strong company culture, says Paal Gisholt, CEO of SmartPak, a 12-year-old manufacturer of custom animal supplements based in Plymouth, MA. But he stresses that general guidelines are called for, not “hyper directives.”

Gisholt and his wife, co-founder Becky Minard, built their business model around the advice of an early mentor. “He said that if you want to be innovative and grow, you should help people make good decisions by creating a great culture,” Gisholt recalls. “People who work best in a highly controlled environment may not break the mold for you and be innovative.”

Engagement Strategies | SmartPak’s culture was created and is reinforced by the company’s well crafted values statement and employee recognition program called SMARTER: speed, maniacal customer service, analysis, risk taking, teamwork, execution, and respect. A peer nomination process identifies one employee quarterly that best exemplifies each of the SMARTER categories. The nomination committee seats rotate across departments, allowing employees to build relationships with people outside of their division. The winners, celebrated at quarterly company-wide meetings, receive a \$250 check. Employees stay motivated on an ongoing basis by striving to win all seven core value awards, which earns them a \$1,000 check and lots of company-wide recognition. “The SMARTER program keeps our core company values front of mind – they are not just words on a wall,” says Gisholt. “All employees know them by heart.”

Care for employees extends to care for customers. Gisholt says the company has differentiated itself in the small but competitive custom-made animal supplements market through exceptional customer service, regularly outpacing its industry in sales by 5% to 10%. As Gisholt explains, “it is really hard to ask your team to treat customers really well if they’re not being treated well themselves.”

Unlike its competitors, SmartPak's sales and service representatives are salaried rather than hourly, with good benefits and nearly twice the rate of pay of others in the industry. "It's a huge premium but we ask more, we train them a lot more heavily, and we expect them to really connect with customers," Gisholt explains.

SmartPak mostly promotes from within, which means that many executives cut their teeth in customer facing positions. And although turnover is low, under 10%, Gisholt says a certain amount of turnover is fine. The most important thing is that the right people are in the right positions. "We're VC-backed with aggressive growth ambitions," he says. "We want to field the best team we can have who will play hard, play smart, and have fun."

Shared Ownership | SmartPak offers lessons learned from their employee gain sharing program. At the beginning, equity was shared with all employees. But Gisholt said his experience was that the tax implications were complicated for employees and after the dot com bubble, many did not put value in them. SmartPak decided to share equity only with top management and to compensate the rest of the employees "in the currency they value most:" short-term cash-related gain sharing.

The gain sharing is team-based to encourage team behavior and is based on three metrics: the amount of time per order, the quality level,



AT A GLANCE SMARTPAK

Location:

Plymouth, MA

Business:

Customized packs of supplements/food for horses and dogs

Employees:

230

Revenues:

\$63.4mm (year ended May 2010)

Ownership:

Gain sharing and bonuses for all, stock options for highest impact executives

Engagement:

- high involvement hiring
- extensive training
- promotion from within
- employee recognition program
- gain sharing and bonuses for all employees

Business result:

- superior customer retention
- largest direct marketer of their product even during recession

and days ahead of shipping goal. It is possible for the team to make a full or partial bonus or none at all depending on how the month went, says Gisholt. If there is no surplus to distribute, there is no bonus. “This system aligns the businesses’ incentives to the peoples’ incentives,” he explains. “People pay attention to the numbers and urge each other to set new records. It makes things more fun.”

Business Results | In addition to leading in industry sales rates, SmartPak has survived its share of storms largely because of its culture. In 2007, for example, there was a widespread recall of pet foods with ingredients manufactured in China, thought to be contaminated by a toxic chemical. The incident could have spurred a major catastrophe for the company. To add to the challenge, SmartPak’s owners were vacationing with their family when the news hit. But because the company had a plan in place and a well trained management team still on the ground back at headquarters, SmartPak’s recall plan went off without a hitch.

Gisholt credits his firm’s strong culture for SmartPak’s ability to respond to that major curveball. “If you have a good culture, people will make generally good decisions,” he says. “Not always the decisions you [as CEO or management] would make, but their decisions will be ten times better than if you have only control procedures.”

Ultimately, the company’s high involvement hiring, training, motivation and recognition, and metrics-linked gain sharing programs all add up. For Gisholt, “a culture of engaged employees has allowed us to survive and thrive even in a recession.”

LESSONS LEARNED

- Link employee recognition programs to core company values to keep those values top of mind for all employees.
- Likewise, link gain sharing with key business metrics so that employees truly understand what makes the company successful.
- Allow for mid-course corrections in your firm’s incentive structure to make sure it continues to motivate employees.
- A strong company culture of empowered employees who understand the company’s core values makes any storm easier to navigate.

Living the Golden Rule

Southern Energy Management

The Story | Southern Energy Management (SEM) is a fast growing energy services provider headquartered in the research triangle area of North Carolina. The 78-person solar powerhouse is poised to enter its tenth year a three-time winner of the EPA’s Energy Star Partner of the Year and the primary contractor for the largest solar systems in the Southeast.

The company’s website proudly attests, “we love what we do and it shows.” For SEM, good business practices are “as old as time,” according to Maria Kingery, the company’s Director of Cultural Development and co-founder together with her husband, Bob Kingery. “Treat others as you would like to be treated.”

Engagement Strategies | To that end, the company’s Human Resources Director has been a part of the executive management team since day one. Team spirit is fostered through community activities, including food, clothing and toy drives and Habitat for Humanity events. And the company supports employees through its mind-body-spirit program by establishing a library for the mind, installing a basketball goal for the body, and setting aside a quiet room for refreshing the spirit.

Kingery says the company is driven by an “attitude of gratitude,” a two-way street, ultimately, that has resulted in very little employee turnover. At team meetings, management requires people to talk about their own accomplishments and those of their team. This is one way the company measures its impact, along with keeping track of the tons of greenhouse gas emissions it avoids through its work. For example, the firm recently certified its 6,000th energy star home. Employees determine their own titles within their team as long as they accurately describe the individual’s function. The receptionist is the “Voice of SEM.”

Due to their recent certification as a B-Corporation, the company is working to establish a meaningful measurement of the spread between the lowest and highest paid employee. As the

company grows, evolves, and continues to develop innovative employee engagement strategies, they won't deviate from the company's constantly communicated core values of empowerment and responsibility.

Shared Ownership | Employees have the option to participate in the company's broad-based stock option plan after completing one year of service. So far, no employee has declined participation. Kingery believes employees are attracted to the firm not just by the equity sharing, but also because SEM does its best "to make sure people have a career path."

The founders – former employees of the natural personal care product line Burt's Bees – brought a profit-sharing ethos with them when they started their company in 2001. They point to their own experience participating in an option plan at Burt's Bees when they talk about broad-based equity sharing. While option grants are performance-based, Kingery says the company is "egalitarian at heart," one example of which is the near-equal benefits packages for employees across the board.

Because not all employees immediately understand why or how SEM is giving them an ownership stake, Kingery becomes an active manager, sitting down with each employee after their first year to walk through a set of slides that explain how the stock option plan works. [Options are first granted by position in



AT A GLANCE SOUTHERN ENERGY MANAGEMENT

Business:

Residential and commercial solar installation and energy efficiency services

Location:

Morrisville, NC

Employees:

78

Revenues:

~\$6 M in 2009; on track to exceed \$24M target for 2010

Ownership:

Broad-based equity sharing

Engagement:

- high involvement hiring
- extensive training and career path
- clear communication of core values
- HR Director on exec. management team
- employee recognition
- culture of empowerment and responsibility
- gainsharing plan under development

Business result:

- Customer satisfaction/retention
- low employee turnover

the company and tenure, and then additional awards are based on performance.]

Kingery says that, if and when employees sell, the goal is that they “walk away with a bigger nest egg than they ever could grow on their own.” She wants to pay people well and sees granting options as a motivator, noting that there is no guarantee they will deliver cash one day. Employees are told that their ownership allows them to make a “mutual investment in SEM’s future.”

While shared ownership does help to keep everyone on the same page, according to Kingery, it can also present challenges: in a recession year like 2009 when the company knew early on that they would miss their target numbers, employees didn’t stop trying, but it was harder to manage their expectations.

Business Results | SEM correlates better customer service and satisfied customers with great employee practices. A survey conducted in 2009 resulted in a great deal of positive feedback, with one customer awarding SEM an 11 on a 1-10 scale, despite not having a completely smooth installation. Kingery chalks it up to SEM’s culture of service – “helping people get what they want,” she said.

Kingery says she doesn’t even know all of the great interactions that are happening between employees. “But if you encourage and empower employees and give them a sense

of ownership,” she says, “cool things happen that ultimately result in better value for our customers and our team.”

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LESSONS LEARNED:

- **Consistent communication of the firm’s core values is key to maintaining and scaling a strong culture of engagement during fast company growth.**
 - **Broad based stock options are a strong motivator for performance in a strong economy, but have to be managed carefully during downturns.**
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FOCUS ON

Sidebar Profiles

FOCUS ON

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A New Culture: Graniterock's Employee Engagement Success

Graniterock, a 650-employee construction materials supplier and heavy civil engineering contractor based in the San Francisco and Monterey Bay areas of California, is a venerable, family-owned company founded in 1900. Graniterock has grown and changed over the years, but the most significant changes occurred when Bruce Woolpert, grandson of company founder, A. R. Wilson, took the helm after a stint in management at Hewlett Packard. Bruce was determined to implement a new culture of rigorous metrics and employee engagement – no easy task for a company that was nearly 90 years old – and make “quality by design” the new byline.

Woolpert's new management approach was built on core values that constituted nine corporate objectives (safety, customer satisfaction and service, financial performance and growth, people, product quality assurance, community contribution and responsibility, efficiency, management, and profit) and baseline goals for each of these objectives. “Every division, branch, and department develops measurable goals each year unique to their business, and each team member has an active part in meeting these goals,” says Barbara Kimball, Staffing Manager.

People are a primary focus at Graniterock and team members stay engaged through job ownership and extensive training and development opportunities. Through the Individual Professional Development Program (IPDP), employees can plan for and meet career and personal training goals through classes taught in-house and outside the company. Each year, Graniterock spends up to \$2000 per employee on training (not including safety training). “Team members value the IPDP program and the growth opportunities training provides,” says Kimball. “They also enjoy having the freedom to make improvements to their job as they see fit.”

By developing measurable goals around common corporate objectives, team members from all areas of the company work cooperatively towards the overall growth of the company, fostering teamwork and a better understanding of the business. “Bruce personally reviews all Baseline Goal reports each year,” Kimball explains. “He asks questions, makes suggestions for improvement and ‘scores’ each division, branch, and department in Baseline Goal achievement. This information is

helpful in determining what to focus on in the coming year; in HR we find it helpful to have historical data in one binder each year for easy reference.”

The culture shift did not happen overnight, but it has had a clear impact on business performance, Kimball says. The company grew exponentially throughout the 1990’s and, as a result, has solidified an excellent reputation in the industry and among customers and won a spot on Fortune magazine’s 100 Best Places to Work for in America. “The things that distinguish us from other companies – our great products, people, and customer service – have improved tremendously due to the changes made to our culture,” she adds.

KEY TAKEAWAYS:

Although it is ideal to establish employee engagement practices from the beginning, it is also possible to put these practices into place at older, established firms to create an infusion of energy and growth.



FOCUS ON

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Hickory Chair: Manufacturing Competitively in the U.S.

Throughout the 1990s, the furniture industry in North Carolina was in rapid decline as manufacturers, chasing lower labor costs, moved overseas. Hickory Chair, a boutique manufacturer of fine custom furnishings, locally operated in Hickory, NC since 1911, was feeling increasing pressure to follow suit.

But company president Jay Reardon knew there had to be another solution. In 1997 Reardon, intent to save local jobs and keep Hickory Chair alive, set about transforming the company's culture with a program called EDGE: Employees Dedicated to Growth and Excellence. In a few years, EDGE dramatically improved Hickory Chair's productivity, sales, and morale and enabled the firm to maintain its operations in the United States.

The EDGE system is designed to raise quality at every level of production. Employees are continuously engaged. Their suggestions and expertise are routinely utilized and experimentation with new processes to make their work safer and easier is openly embraced.

Reardon described the performance improvements captured from the employees in EDGE: shorter cycle time, reduced waste, higher quality and faster product shipment. EDGE amounted to not just to a change in the company's production system, but a wholesale shift in its culture. Customers have benefitted as well with increased options for personalization on most pieces manufactured by the company. The company's leadership lived and breathed it; employees at all levels adopted it. Connectivity between departments increased. Employees began to receive annual bonuses tied to profitability and managers' salaries became dependent on the company hitting its goals.

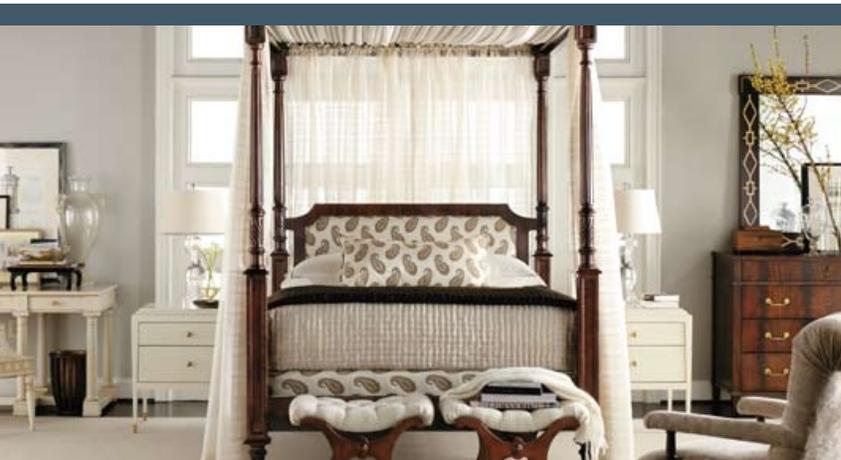
Hickory Chair went six years without increasing product prices. The firm was consistently profitable. According to Reardon, some of Hickory Chair's suppliers were so impressed by the EDGE system that they adopted it. More recently, environmental stewardship has become a key part of EDGE.

Based on his own experience, Reardon identifies several best practices for introducing employee engagement at an existing firm:

- “Few and do is better than a lot and not:” Limit the initial changes to two to three things per week that employee teams can commit to accomplishing.
- Invest in middle management: make sure managers fully understand what you are trying to achieve and can facilitate engagement of employees at all levels.
- Make sure the reward system is driving the behavior you want: If you want an increase in team productivity, make sure the compensation system rewards team results rather than individual behavior.
- Upfront investments in people and culture can result in long term payoffs: for example, Hickory Chair has sometimes won bids because the customer likes how they treat their people, according to Reardon. “People like to be associated with companies that are treating their employees well,” he said. “And if you treat your employees right, they will treat customers right.”

KEY TAKEAWAYS:

Employee engagement strategies can provide a key competitive advantage for older businesses facing pressure to manufacture overseas.



Chandler Design-Build: Building the Field

Michael Chandler started Chandler Design-Build, an award-winning green residential design-build shop, in 1987 in Mebane, NC. He and his wife Beth Williams, who designs the houses, are committed to salary parity, taking home equal paychecks that are no more than 15% higher than their highest paid employee. Careful, high involvement hiring has helped them create an 8-person team to which Chandler expects to one day transition ownership.

All employees – including management – are currently paid on an hourly basis, so that people are compensated based on the actual hours they work. The structure also allows employees the freedom to care for children and other family members during “normal” business hours.

Bonuses and an end of the year “true-up,” when each employee is shown his or her full compensation (including the cost of benefits), add to a culture of accountability. These engagement features, Chandler says, contribute to the tight knit culture of the company – along with a weekly Friday pizza lunch to plan the next week’s projects, jobs in the pipe-line, and other key issues.

Though the boutique firm exemplifies good corporate culture, perhaps its most distinctive feature is what it has been able to grow outside the office because of it.

As a profitable residential builder specializing in environmentally sensitive design, Chandler has been able to teach green building techniques to others, often spending at least two days on the road at events and public education opportunities, promoting sustainability and building the field. He credits his strong and competent team for creating the time he has available to widely disseminate the green building message.

KEY TAKEAWAYS:

Fully engaged employees can manage day-to-day company operations, allowing top management time away from the office to build the field.



Lessons Learned: When broad based stock options don't work

Two partners launched Company X, a software business, in the mid-1980s, and implemented a range of benefits early on for employees including profit sharing, bonuses, and broad based stock options. [The founder asked that the firm remain anonymous for this publication.]

While the profit sharing and bonus plans were understood and enjoyed by employees throughout the firm, regardless of market conditions, the company's experience with stock options during difficult times was less straightforward.

Company X founders planned to award stock options broadly from the beginning. Options were awarded each year to a varied group of employees, including many non-management employees, often as incentives for performance. As the company grew and the potential to go public became increasingly likely, the value of options shot up ten-fold, which was very motivating to employees. Had the company succeeded in going public, it would have been a very good story for all involved.



Regrettably, a turn in the market prevented a public sale, the company did not connect with a buyer for seven long years, and option values plummeted, severely damaging morale. When the company was eventually able to sell, the founders wanted to make sure their employees, who had watched the value of their options make a meteoric rise and subsequent fall, got something from the deal. Together with their board, the founders decided to revalue the options at zero. Then, using their own proceeds from the sale, they generously paid employees the current value of the shares (about \$62/share).

Company X's founder said he would not share stock options broadly again, but not because he doesn't believe in performance based incentives and employee engagement. Rather, stock options in this situation were simply too complicated and he never felt that his college educated workforce fully understood what stock options meant.

Because seeing options steadily lose value in a market downturn was such a disincentive to his employees, Company X's founder thinks that bonuses are a more straightforward and understandable way to reward employee performance.

KEY TAKEAWAYS:

Carefully consider the pros and cons of broad based stock options before implementing.

Comprehensive and repeated education of employees about what options mean is key.

Finding other ways to reward employees' hard work when market conditions result in underwater options is important to maintain morale.

New Belgium Brewery: Employee Engagement Accelerates Sustainability

Can employee ownership and engagement facilitate other forms of corporate sustainability? At New Belgium Brewing, the Fort Collins, Colorado-based maker of famed Fat Tire beer, the answer is an emphatic “yes.”

The 19-year-old firm can demonstrate a clear link between its sustainability measures and its employee engagement strategies – the company has even developed a road show headed up by their full-time Sustainability Specialist staff that lets others know about their work and its bottom line benefits.

At New Belgium, sustainability initiatives and employee engagement – shared ownership via an ESOP, profit sharing, and open book management among other strategies – inform and mutually reinforce one another. The clear lesson for companies trying to more actively and credibly promote environmental responsibility? Establish baseline employee engagement strategies and include employees across the firm in the effort. In fact, strong employee engagement structures will likely make any company initiative easier to execute and the benefits will come faster.

New Belgium Brewing Sustainability Specialist, Katie Wallace, credits the company’s engagement strategies and ownership culture for the implementation and success of many company-wide initiatives, especially the eco programs. CEO Kim Jordan likes to say that everyone from entry level to executive “participates in the business of doing business.”

Because the company is employee owned and works to strengthen an ownership mentality (the very active ESOP committee is nicknamed POSSE), employees are encouraged to propose ideas that can help drive the business. These ideas return bottom line savings to the company and generate environmental benefits as well. For example, two employees recently proposed eliminating 12-bottle pack dividers, which led to \$280,000 and 150 tons of paper saved along with reduced machine downtime. Because of the brewery’s profit sharing program, all employees enjoyed a part of the cash benefit from the savings.

The company has also been bold about contacting its suppliers and asking them to consider cutting waste from certain products. The message is usually well received, according to Wallace.

New Belgium has formalized the steps to growing and developing its sustainability initiatives. Though coworker participation remains voluntary, employees are encouraged

to take part. Education via department-by-department discussion over the company intranet; soliciting participation by sending new ideas to cross department teams for input; and keeping solutions top of mind through constant communication forms the backbone of their approach.

KEY TAKEAWAYS:

Companies with engaged employees have an advantage when it comes to money-saving environmental sustainability efforts.



South Mountain Company: Lessons from an Employee Owned Cooperative

One way companies can reap the benefits of a highly engaged and motivated workforce is by organizing as a cooperative, defined as a business legally owned and democratically controlled by a group of individuals for their mutual benefit.

John Abrams, a founding owner of the South Mountain Company, a design, building, and renewable energy firm in Martha's Vineyard, MA, thinks that employee owned cooperatives will increasingly become organizational structures of choice. At South Mountain, 31 employees with an average tenure of 12 years are owners or are on a path to ownership. According to Abrams, the cooperative structure was selected over other comparable forms such as an ESOP because the company was too small for an ESOP and also because they wanted "a highly democratic and welcoming structure."

Abrams says that his firm's organization as a coop is largely responsible for its success, a strength that's driven by its very committed and stable workforce. "Our small size and the personal attention we can give to clients and each other is part of what makes us who we are," he says.

The employee-owners at South Mountain are responsible for policy making but not management of the company. Firm revenues are divided into salaries, profit sharing, and equity shares, with 10% set aside for mostly local charitable contributions. The company has committed itself to providing low-cost services and more affordable housing in a community where housing prices are 96% higher than the national average, according to a Martha's Vineyard Commission report from 2007. One star project called Jenney Way, completed in 2008, is the first LEED platinum, single family affordable housing project in the U.S.

A year ago, after the economic collapse caused a wave of project cancellations, Abrams feared that the company's thirty-year legacy of no layoffs would be reversed. As a company of owners, the team decided on a tiered set of approaches to avoid cutting jobs: rolling furloughs, reduced hours and reduced wages. Combining this with expanded horizons (the firm reversed a long

standing decision not to accept work off the island) has kept the company relatively intact and prosperous.

Abrams believes that worker owned cooperatives, such as the widely hailed Evergreen Cooperatives in Cleveland, are becoming more popular. “Hopefully we won’t think about it as anything exceptional in a few years,” he said.

More information on South Mountain is available in Abrams’ newly updated book, Companies We Keep: Employee Ownership and the Business of Community and Place.

KEY TAKEAWAYS:

Organizing as a cooperative can be a means for smaller businesses to implement employee engagement and broad-based ownership



Timbuk2: Investor Exit Proceeds Shared Broadly

Pacific Community Ventures, LLC (PCV) is a venture and private equity investment firm focused on investing in small, high growth California businesses that bring economic benefits to low to moderate income employees and communities.

As part of its 2000 investment in high-end urban and outdoor business and travel gear company Timbuk2, the fund negotiated a wealth-sharing mechanism that would ensure all employees benefited from the eventual sale of the company alongside management and investors.



Five years later, Timbuk2 sold to private equity investors. One million dollars of the sale was divided, as a one-time bonus, among 40 non-management employees who were part of the company's Employee Wealth Sharing Program. The option plan was structured as phantom stock, which does not gain value over time, but maintains a fixed percentage that grows as the absolute dollar value of the company grows.

Payouts ranged from \$5,000 to twice the workers' annual salary and were divided according to tenure, performance and other factors. To help employees manage their new windfall, PCV brought in volunteer banking advisors who spoke English and the native Cantonese of some of the workforce. The advisors recommended workers place 20% of their earnings into retirement accounts. PCV later learned anecdotally that some employees used their equity earnings to pay for their children's higher education.

Equity sharing was not the only engagement strategy the bag maker employed. In 2007, Timbuk2 brought in students from Stanford Business School as part of its focus on building a stronger company culture. The students proposed a shake-up of the top-down format of company meetings

and recommended turning more control over to employees. A change of time, room location, and a contest to win a custom bag with a design based on the winning employee's hobby were added to the regular routine. Employees also added their own blog. The new strategies were rooted in some practical advance: a management expert told the company's incoming CEO at the time that, "if you destroy the culture, you destroy the company."

KEY TAKEAWAYS:

Employee engagement strategies can provide a key competitive advantage for older businesses facing pressure to manufacture overseas.

Tweezerman: Creating a Triple Bottom Line in a Global Brand

Dal LaMagna, founder and former CEO of the Tweezerman Company, a beauty products maker best known for its namesake tweezers, saw his company scale to a global brand. But he never let employee engagement or, as he calls it, “responsible capitalism,” go by the wayside.

LaMagna designed his company to share 20% of ownership with his employees through stock bonuses and an ESOP. “I decided to not exploit my workers, but to make them my partners,” he explains. His motivation for doing so was informed by his belief that his employees should share in the profits and the value that they built together over time. Instead of salaries, employees at Tweezerman were paid for hours worked – even if that included overtime – which LaMagna saw as more equitable.

Tweezerman actively worked to maintain its employee engagement practices as the company grew. One strategy to do this was to keep its policies consistent, such as paying employees a living wage. Another was to engage Verité, a nonprofit that conducts social audits, to help assess its practices. The process included random interviews with employees, customers, and vendors. LaMagna says the firm quickly corrected any problems it found during the course of these audits.

When the beauty tool giant was sold to privately held Zwilling J.A. Henckels Company of Germany in 2004, 250 employees made millions in the deal. LaMagna described many happy employees including one maintenance worker who earned \$50,000 as his share of the capital gain – and kept his job. He said that the company sold for more than it would have because of its strong brand and the competent, engaged employees there to help continue its growth.

While building the firm, LaMagna adopted many open book management strategies including showing his co-owner employees how the financials worked. “As a result, they worked harder,” he says. Employees understood that 20% of revenues were budgeted for salaries and benefits, and that increased sales could either go to raises or hiring new people to handle the increased work.

For example, the shipping department managed for some time to continually increase their productivity, receiving hefty raises as a result. Eventually the amount of product needing to be shipped necessitated hiring additional employees. “But the members of the department were empowered – they decided when more employees were needed, not the management,” LaMagna explained.

To award the credit managers for dropping the amount of past due receivables LaMagna shared with them the interest cost savings the company realized because it borrowed less from the bank. When this program was instigated past due receivables dropped from 25% to 13%. “It wasn’t a whole lot of money – \$900 to two people in a quarter – but they directly benefited from their increased effectiveness,” he said.

Tweezerman is a quality driven business, not a price driven one, unlike its competitors, according to LaMagna, allowing him to focus on building a socially responsible company. And when selling the firm, LaMagna was careful to choose a buyer that would uphold this philosophy. After the sale, wages and benefits stayed in place for American workers and employees at a plant in India received bonuses equal to a half year’s salary and kept their jobs.

While triple bottom line practices are now gaining headway among companies large and small, Tweezerman was warm to the business approach from the beginning. One of social entrepreneurship’s earliest champions, LaMagna truly understands what a great company culture means in practice. “Take care of your employees and they will take care of you. Take care of your vendors and they will take care of you. Take care of your customers, and they will take care of you. Take care of your community and they will take care of you. That’s it – quadruple bottom line.”

More information on Tweezerman is available in LaMagna’s recent book, Raising Eyebrows, A Failed Entrepreneur Finally Gets It Right.



KEY TAKEAWAYS:

With care and intention, a strong culture of employee engagement can be maintained even as a company grows into a global brand.

APPENDIX A

EMPLOYEE OWNERSHIP AND ENGAGEMENT RESOURCES

NATIONAL CENTER FOR EMPLOYEE OWNERSHIP	nceo.org	Leading publisher of research on employee stock ownership plans (ESOPs), equity compensation plans such as stock options, and ownership culture. Offers consulting, seminars, webinars, books and a monthly newsletter.
BEYSTER INSTITUTE	rady.ucsd.edu/beyster	Located within UC San Diego's Rady School of Management, the Beyster Institute works to advance the understanding and practice of employee ownership as an effective and responsible business model.
WINNING WORKPLACES	winningworkplaces.org	Annually recognizes companies with the Top Small Workplaces Award, in partnership with INC. magazine; offers case studies on companies with great workplace engagement strategies, and consulting.
THE GREAT GAME OF BUSINESS	greatgame.com	Offers training and coaching services on best practices of high involvement workplaces and open book management. See founder Jack Stack's books <i>The Great Game of Business</i> and <i>A Stake in the Outcome</i> .
TOWERS WATSON	towerswatson.com	Global professional services company that publishes international research and reports on a broad range of business related topics.
GREAT PLACE TO WORK INSTITUTE	greatplacetowork.com	Offers workplace employee engagement consulting.
RESULTS ONLY WORK ENVIRONMENT	gorowe.com	Offers resources to develop a "results-only work environment" (ROWE) focused on employee performance rather than presence.
WHEN WORK WORKS	whenworkworks.org	Started in 2005, a nationwide initiative to bring research on workplace effectiveness and flexibility into community and business practice.
SJF INSTITUTE ENGAGE EMPLOYEES BLOG	engageemployees.org	One of several SJF Institute resources designed to empower companies to build workplaces where employees can grow and thrive; offers news and analysis on topics related to employee engagement.
EMPLOYEE ENGAGEMENT NETWORK	employeeengagement.ning.com	An international online forum of about 3,000 members discussing topics related to employee engagement.



APPENDIX B

**Broad-Based Employee
Incentive Arrangements**

BROAD-BASED EMPLOYEE INCENTIVE ARRANGEMENTS

I. Equity-Based Compensation

A. Nonqualified Stock Option (“NSO”)

DESCRIPTION	RESTRICTIONS	TAX	ACCOUNTING	PROS / CONS	COMMENTS
<p>Right to purchase stock from the issuer at a fixed price.</p> <p>Holder may exercise at any time (after becoming exercisable).</p>	<p>To avoid being subject to Section 409A of the Internal Revenue Code (the “Code”):¹</p> <ul style="list-style-type: none"> • exercise price must not be less than fair market value (“FMV”) on date of grant • cannot be granted on preferred stock • must be granted on employer stock. 	<p>HOLDER:</p> <p>No tax on grant or vesting.</p> <p>At exercise, holder taxed on excess of FMV at time of exercise over exercise price. Ordinary income rate applies.</p> <p>ISSUER:</p> <p>Gets equivalent deduction in tax year in which exercise occurs.</p>	<p>“Fair value” at date of grant amortized over vesting period.</p>	<p>PROS:</p> <p>No tax on grant or vesting.</p> <p>Unlike ISOs (see I.B below), may be granted to contractors and directors, as well as employees.</p> <p>CONS:</p> <p>No capital gain treatment.</p> <p>Equity dilution.</p> <p>Little incentivizing effect if stock significantly depreciates.</p>	<p>To assist low- to moderate-income employees to pay exercise price, award may allow for broker-assisted cashless exercise² or net-share settlement.³</p> <p>Award may also provide for cash-settlement, in which case the award will be treated as a stock appreciation right or SAR (see below).</p>

¹ If a stock option is subject to Section 409A, the holder must pay ordinary income tax on vesting (rather than exercise) plus a 20% additional tax (unless the option is only exercisable on a fixed date, which decreases its value).

² In a broker-assisted cashless exercise, the holder borrows from a broker to cover the cost of the exercise price, taxes and broker commissions and simultaneously sells enough of the shares received on exercise to repay the broker. A cashless exercise does not work for private issuers (because there is no public market for the shares) or for ISOs (because the sale of shares results in a disqualifying disposition). It also can be problematic for executive officers of public companies because of the prohibitions on loans imposed by Sarban

³ In a net share settlement, the issuer delivers to the holder the net shares without the use of a loan. That is, the holder receives that number of shares that equals the total number of shares issuable upon exercise minus that number of shares whose sale would be sufficient to pay the exercise price and taxes. A net share settlement does not work for ISOs because it is treated as a disqualifying disposition.

BROAD-BASED EMPLOYEE INCENTIVE ARRANGEMENTS

B. Incentive Stock Option (“ISO”)

DESCRIPTION	RESTRICTIONS	TAX	ACCOUNTING	PROS / CONS	COMMENTS
<p>Right to purchase stock from the issuer at a fixed price.</p> <p>Holder may exercise at any time (after becoming exercisable).</p> <p>Must comply with requirements of Section 422 of the Code.</p>	<p>To avoid being subject to Section 409A of the Code:</p> <ul style="list-style-type: none"> • exercise price must not be less than FMV on date of grant • cannot be granted on preferred stock • must be granted on employer stock. <p>To avoid being subject to Section 409A of the Code:</p> <ul style="list-style-type: none"> • plan must be approved by shareholders, • holder must be an employee, • stock acquired on exercise cannot be sold for 1 year after date of exercise and 2 years after date of grant. 	<p>HOLDER:</p> <p>No tax on grant, vesting or exercise (but spread at exercise included in computing alternative minimum tax (“AMT”).</p> <p>On sale of stock, holder recognizes long term capital gain if holding requirements are met.⁴</p> <p>No withholding or payroll taxes.</p> <p>ISSUER:</p> <p>No deduction at grant or exercise (unless employee sells shares early in disqualifying disposition).</p> <p>No withholding, but information reporting to IRS.</p>	<p>“Fair value” at date of grant amortized over vesting period.</p>	<p>PROS:</p> <p>Holder can get capital gain treatment.</p> <p>CONS:</p> <p>To get capital gains treatment, must hold for 1 year after exercise.</p> <p>Equity dilution.</p> <p>May only be granted to employees, not contractors or directors.</p> <p>Little incentivizing effect if stock significantly depreciates.</p> <p>No issuer deduction, unless a disqualifying disposition occurs.</p> <p>Holder can be hit with AMT liability (especially difficult to satisfy if stock depreciates significantly after exercise).</p>	<p>For ISOs (unlike for NSOs), broker-assisted cashless exercises and net share settlement, which can assist low- to moderate-income employees to pay the exercise price, do not work.</p> <p>If ISOs are “cashed-out” on a change in control, they are subject to withholding and payroll taxes (and, because the holding requirements are not met, there is no capital gains treatment). However, employees who exercise their vested ISOs immediately prior to a change in control (as opposed to allowing them to be cashed-out) will avoid withholding and payroll taxes (but still will not get capital gains treatment).</p>

⁴ Payroll taxes consist of Medicare (1.45% on all income, with no cap) and Social Security (6.2% on all income, subject to a cap – \$102,000 in 2008).

BROAD-BASED EMPLOYEE INCENTIVE ARRANGEMENTS

I. Equity-Based Compensation (continued)

C. Restricted Stock

DESCRIPTION	RESTRICTIONS	TAX	ACCOUNTING	PROS / CONS	COMMENTS
<p>Stock of the issuer that is issued and outstanding but subject to forfeiture unless specified conditions relating to continued employment and/or issuer performance are satisfied.</p> <p>Stock can either be issued at no cost to the employee, or the employee can pay fair value for the stock.</p>	None.	<p>HOLDER:</p> <p>Holder recognizes ordinary income at vesting equal to FMV of stock at vesting minus any amount paid by holder for stock. Capital gain holding period begins at vesting.</p> <p>Holder may elect under Section 83(b) of the Code to be taxed at grant, based on value at grant. Capital gain holding period begins at grant.⁵</p> <p>ISSUER:</p> <p>Gets equivalent deduction in tax year in which employee recognizes income.</p>	FMV at date of grant amortized over vesting period.	<p>PROS:</p> <p>If holder makes Section 83(b) election, gets capital gain treatment on any appreciation.</p> <p>Holder receives some value even if stock price declines.</p> <p>Less dilution than options.⁶</p> <p>Holder usually receives dividend and voting rights.</p> <p>Not subject to Section 409A.</p> <p>CONS:</p> <p>If no Section 83(b) election is made, holder must pay tax at vesting.</p> <p>If Section 83(b) election is made, holder must pay tax at grant (unless paid FMV for stock), and cannot deduct loss on forfeiture.</p>	<p>Low- to moderate-income employees are not likely to value restricted stock (e.g., they may not have brokerage accounts or access to the forms and facilities attendant to stock ownership, and brokers may not want to handle such small accounts).</p> <p>There are also liquidity issues in private companies.</p>

⁵ However, in most cases, making an election is economically risky because of the possibilities of forfeiture and of the stock price declining.

⁶ This is because fewer shares are required to give the same “value” of award.

BROAD-BASED EMPLOYEE INCENTIVE ARRANGEMENTS

D. Stock Appreciation Right (“SAR”)

DESCRIPTION	RESTRICTIONS	TAX	ACCOUNTING	PROS / CONS	COMMENTS
<p>Right to receive the appreciation in the value of the issuer’s stock over the period from grant to exercise.</p> <p>May be payable in cash or stock.</p> <p>Holder may exercise at any time (after becoming exercisable).</p>	<p>To avoid being subject to Section 409A of the Code:</p> <ul style="list-style-type: none"> • exercise price must not be less than FMV on date of grant • cannot be granted on preferred stock • must be granted on employer stock. 	<p>HOLDER:</p> <p>No tax on grant or vesting.</p> <p>At exercise, holder taxed on excess of FMV at time of exercise over exercise price. Ordinary income rate applies.</p> <p>ISSUER:</p> <p>Gets equivalent deduction in tax year in which exercise occurs.</p>	<p>STOCK-SETTLED SARS.</p> <p>“Fair value” at date of grant amortized over vesting period.</p> <p>CASH-SETTLED SARS.</p> <p>“Fair value” throughout vesting period charged to earnings and marked to market (i.e., “liability award” subject to variable accounting).</p>	<p>PROS:</p> <p>No tax on grant or vesting.</p> <p>Exercise does not require cash payment.</p> <p>No equity dilution if settled in cash.</p> <p>If settled in stock, less equity dilution than option.⁷</p> <p>CONS:</p> <p>No capital gain treatment.</p> <p>Little incentivizing effect if stock significantly depreciates.</p> <p>Variable accounting if settled in cash.</p>	<p>For ISOs (unlike for NSOs), broker-assisted cashless exercises and net share settlement, which can assist low- to moderate-income employees to pay the exercise price, do not work.</p> <p>If ISOs are “cashed-out” on a change in control, they are subject to withholding and payroll taxes (and, because the holding requirements are not met, there is no capital gains treatment). However, employees who exercise their vested ISOs immediately prior to a change in control (as opposed to allowing them to be cashed-out) will avoid withholding and payroll taxes (but still will not get capital gains treatment).</p>

⁷ This is because, unlike with options, the holder receives shares only with respect to the appreciation and not with respect to the exercise price.

BROAD-BASED EMPLOYEE INCENTIVE ARRANGEMENTS

I. Equity-Based Compensation (continued)

E. Phantom Stock (aka, Restricted Stock Units (“RSUs”) or Performance Shares)

DESCRIPTION	RESTRICTIONS	TAX	ACCOUNTING	PROS / CONS	COMMENTS
<p>A contractual right to receive the value of a share of stock.</p> <p>May be settled in cash or stock.</p> <p>Conditions to payment generally relate to continued employment and/or issuer performance.</p> <p>Award must specify payment date (i.e., cannot be “exercised” at the election of the holder).</p> <p>Can replicate synthetically all attributes of stock ownership (e.g., dividend equivalents) except the vote and the tax advantage for dividends.</p>	<p>Unless the RSUs are settled on vesting, they are subject to Section 409A. If subject, they must have permitted settlement dates (e.g., fixed date, termination of employment, change in control).</p>	<p>HOLDER:</p> <p>No income tax upon grant or vesting (but employment taxes at vesting).</p> <p>On settlement, holder taxed on value of cash or stock received. Ordinary income rate applies.</p> <p>Dividend equivalents taxed at ordinary income rates (not dividend rate).</p> <p>ISSUER:</p> <p>Gets equivalent deduction in tax year in which exercise occurs or the dividend equivalent is paid.</p>	<p>STOCK-SETTLED RSUs</p> <p>“Fair value” at date of grant amortized over vesting period.</p> <p>CASH-SETTLED RSUs</p> <p>“Fair value” throughout vesting period charged to earnings and marked to market (i.e., “liability award” subject to variable accounting).</p>	<p>PROS:</p> <p>Income tax delayed until settlement rather than being due at vesting.</p> <p>No equity dilution if settled in cash.</p> <p>If settled in stock, no equity dilution until settled.</p> <p>Very flexible – many design choices available.</p> <p>CONS:</p> <p>No voting rights or dividend rate tax.</p> <p>No capital gains opportunity before settlement.</p>	<p>Low- to moderate-income employees are not likely to value restricted stock (e.g., they may not have brokerage accounts or access to the forms and facilities attendant to stock ownership, and brokers may not want to handle such small accounts).</p> <p>There are also liquidity issues in private companies.</p>

BROAD-BASED EMPLOYEE INCENTIVE ARRANGEMENTS

F. Employee Stock Purchase Plan (“ESPP”)

DESCRIPTION	RESTRICTIONS	TAX	ACCOUNTING	PROS / CONS	COMMENTS
<p>A qualified benefit plan that grants employees an option to purchase employer stock at a discount.</p> <p>Provides favorable tax treatment under Code Section 423.</p>	<p>Plan must be approved by shareholders within 12 months before or after plan is adopted.</p> <p>Options must be granted to all employees on non-discriminatory basis.</p> <p>Option exercise price cannot be less than the lesser of (i) 85% of FMV on date of grant or (ii) 85% of FMV on date of exercise.</p>	<p>EMPLOYEE:</p> <p>No tax on grant or exercise.</p> <p>Tax on disposition of stock. If disposition occurs at least 2 years after date of grant and 1 year after date of exercise, any profit is long term capital gain.⁸</p> <p>Otherwise, employee pays ordinary income tax.</p> <p>EMPLOYER:</p> <p>No deduction unless employee pays ordinary income tax due to early disposition, in which case employer gets equivalent deduction.</p>	<p>FAS 123R requires expensing unless:</p> <p>(i) no lookback (i.e., option exercise price is set with reference to FMV on date of exercise, not date of grant), and</p> <p>(ii) discount is 5% or less (i.e., exercise price is 95% or more of FMV on date of exercise).</p>	<p>PROS:</p> <p>Favorable tax treatment for employees.</p> <p>Because of discounted price, employees can profit even if stock price declines.</p> <p>CONS:</p> <p>No employer tax deduction.</p> <p>Employees must pay cash to purchase stock.</p> <p>Generally used only for publicly traded stock.</p>	<p>Liquidity issue for low- to moderate-income employees can be addressed by withholding purchase price in installments through payroll deductions.</p>

⁸ Except that the employee pays ordinary income tax on an amount equal to the lesser of (i) the excess of the FMV of the stock on the date of disposition over the amount paid for the stock, or (ii) the excess of the FMV of the stock on the date of grant over the exercise price.

BROAD-BASED EMPLOYEE INCENTIVE ARRANGEMENTS

II. Cash Bonuses

DESCRIPTION	RESTRICTIONS	TAX	ACCOUNTING	PROS / CONS	COMMENTS
<p>Right to receive a cash bonus based on attainment of performance targets.</p> <p>Short-term bonuses have performance periods of 1 year or less (e.g., annual, quarterly).</p> <p>Long-term bonuses have performance periods of more than 1 year (generally, 3 or 5 years).⁹</p> <p>Targets can be based on the performance of the employee, a division and/ or the entire company.</p>	<p>To avoid being subject to Section 409A, the bonus must be paid within 21/2 months after the end of the year in which the employee's right to the bonus vests.¹⁰</p> <p>Under Code Section 162(m), compensation paid to covered employees¹¹ of public companies that exceeds \$1 million is only deductible as performance-based compensation if it meets certain requirements.¹²</p>	<p>HOLDER:</p> <p>Ordinary income in year of payment.</p> <p>ISSUER:</p> <p>Gets equivalent deduction in year of payment (subject to Section 162(m)).</p>	<p>SHORT-TERM BONUSES:</p> <p>Charge equal to bonus amount taken in year earned (even if paid in following year).</p> <p>LONG-TERM BONUSES:</p> <p>For each year during performance period, a charge is taken based on an estimate of the likelihood that the bonus will be earned.</p>	<p>PROS:</p> <p>No equity dilution.</p> <p>Very flexible – many design choices available.</p> <p>CONS:</p> <p>No capital gains opportunity.</p> <p>Unlike equity, potential upside is generally capped (e.g., to 200% of base salary).</p> <p>Imposes regular cash obligation on company.</p>	<p>For simplicity, bonuses for low- to moderate-income employees should be based at least in part on the performance of the individual employee or the employee's division.</p>

⁹ A long-term incentive program (“LTIP”) may provide for overlapping performance periods, so that after the initial period, bonuses can be earned each year. For example, in an LTIP with three-year overlapping periods, the first performance period could run from January 1, 2007 to December 31, 2009 (with payment in early 2010), the second performance period could run from January 1, 2008 to December 31, 2010 (with payment in early 2011), and so on.

¹⁰ For example, if an employee's 2007 annual bonus vests as of December 31, 2007 (such that the employee's right to the payment is not forfeited on a termination of employment that occurs after December 31, 2007 and prior to the date in 2008 on which the bonus is paid), the bonus must be paid by March 15, 2008 to avoid being subject to Section 409A. An alternative would be to require that the employee be employed on the date of payment (in which case, the vesting date and the payment date would be the same). Another option would be to have the employee's 2007 bonus not vest until, say, January 15, 2008, in which case the bonus could be paid as late as March 15, 2009 without becoming subject to Section 409A.

¹¹ Covered employees for purposes of Code Section 162(m) include a public company's chief executive officer and its three other most highly compensated officers other than its chief financial officer.

¹² These requirements are generally met if (i) the performance goals are established by a compensation committee, consisting solely of two or more outside directors, on or before the date on which 25% of the performance period has elapsed, (ii) the material terms under which the compensation is to be paid are disclosed to and approved by a majority of shareholders, and (iii) after the performance period and prior to payment, the compensation committee certifies that the performance goals and any other material terms were in fact met.

BROAD-BASED EMPLOYEE INCENTIVE ARRANGEMENTS

I. Retirement Savings Plans

A. 401(k) Savings Plan

DESCRIPTION	RESTRICTIONS	TAX	PROS / CONS	COMMENTS
<p>Defined contribution retirement savings plan qualified under Code Section 401(k) and subject to the Employee Retirement Income Security Act of 1974 (“ERISA”).</p> <p>Employees may elect to contribute to the plan on a tax-deferred basis.</p> <p>Employer may provide matching contributions.</p> <p>Employees direct investment of contributions by selecting from among an array of investments.</p>	<p>Pre-tax employee contributions are subject to Code limits (\$15,500 for 2007).</p> <p>Total of employer and employee contributions are limited to the lesser of 100% of compensation or the Code limit (\$45,000 for 2007).</p> <p>Employer contributions are subject to minimum vesting requirements (employee contributions are always vested).</p> <p>Withdrawals while employed can only be made penalty-free after age 59½, with certain limited exceptions (e.g., to pay for tuition, home or medical expenses).</p> <p>Plan must meet certain nondiscrimination tests designed to ensure that a sufficient number of low- to moderate-income employees participate.</p>	<p>EMPLOYEE:</p> <p>No tax on contributions or earnings until withdrawn.</p> <p>Ordinary income on permitted withdrawal.</p> <p>Penalty of 10% on early withdrawal.</p> <p>EMPLOYER:</p> <p>Gets equivalent deduction in year of contribution.</p>	<p>PROS:</p> <p>Tax delayed until withdrawal.</p> <p>Company has flexibility to change or eliminate match.</p> <p>Plan may allow for loans.</p> <p>Employer contributions can be subject to vesting (so have retentive value).</p> <p>CONS:</p> <p>Administrative burdens (e.g., nondiscrimination testing, filing and disclosure requirements).</p> <p>Failing nondiscrimination test can lead to tax on contributions and plan disqualification.</p>	<p>To increase enrollment of low- to moderate-income employees, the plan may provide for automatic enrollment. Employees who elect not to participate must actively opt out.</p> <p>There are ways to ease administrative burdens. e.g.:</p> <ul style="list-style-type: none"> • use prototype plan drafted by third party (to avoid having to obtain qualification letter from IRS), • take advantage of safe harbor methods (to avoid having to test for discrimination) – but requires employer match

BROAD-BASED EMPLOYEE INCENTIVE ARRANGEMENTS

B. Simplified Employee Plan (“SEP”)

DESCRIPTION	RESTRICTIONS	TAX	PROS / CONS	COMMENTS
<p>Basic defined contribution retirement savings plan governed by Code Section 408(k).</p> <p>Employer contributions are made to individual retirement accounts (“IRAs”) maintained for individual employees.</p>	<p>Contributions are limited to the lesser of 25% of compensation or the Code limit (\$45,000 for 2007).</p> <p>Employer must generally contribute same percentage of compensation for each employee.</p> <p>Employees cannot make contributions.</p> <p>Plan cannot allow for loans.</p> <p>Withdrawals can only be made penalty-free after age 59½, with certain limited exceptions (e.g., to pay for tuition, home or medical expenses).</p> <p>Employer cannot maintain another qualified retirement plan.</p>	<p>EMPLOYEE:</p> <p>No tax on employer contributions or earnings until withdrawn.</p> <p>Ordinary income on permitted withdrawal.</p> <p>Penalty of 10% on early withdrawal.</p> <p>EMPLOYER:</p> <p>Gets equivalent deduction in year of contribution.</p> <p>May be eligible for tax credit of up to \$500 per year for each of first 3 years for cost of starting plan.</p>	<p>PROS:</p> <p>Tax delayed until withdrawal.</p> <p>Employer can choose whether to contribute for a particular year and, if so, how much.</p> <p>Administration is easier and less costly than 401(k) plan (e.g., generally, no filing requirements).</p> <p>CONS:</p> <p>No employee contributions.</p> <p>No loans.</p> <p>Employer contributions are always vested (so have no retentive value).</p>	<p>Basically, a simplified version of a 401(k) plan.</p> <p>After a time, employer may wish to establish a 401(k) plan (e.g., to allow for employee contributions). If so, the SEP can easily be terminated, and employees can rollover their savings in the SEP to the 401(k) plan.</p>

BROAD-BASED EMPLOYEE INCENTIVE ARRANGEMENTS

C. Savings Incentive Match Plan for Employees of Small Employers ("SIMPLE") Plan

DESCRIPTION	RESTRICTIONS	TAX	PROS / CONS	COMMENTS
<p>Basic defined contribution retirement savings plan governed by Code Section 408(p).</p> <p>Employer and employee contributions are made to IRAs maintained for individual employees.</p>	<p>Company cannot have more than 100 employees who earned \$5,000 or more in the previous year.</p> <p>For each year, employer must choose to contribute, generally, either 2% of each employee's compensation or 3% of the amount of each employee's contribution.</p> <p>Employees can make contributions, up to the lesser of 100% of compensation or the Code limit (\$10,500 for 2007).</p> <p>Plan cannot allow for loans.</p> <p>Withdrawals can only be made penalty-free after age 59½, with certain limited exceptions (e.g., to pay for tuition, home or medical expenses).</p> <p>Employer cannot maintain another qualified retirement plan.</p>	<p>EMPLOYEE:</p> <p>No tax on contributions or earnings until withdrawn.</p> <p>Ordinary income on permitted withdrawal.</p> <p>Penalty of 10% on early withdrawal.</p> <p>EMPLOYER:</p> <p>Gets equivalent deduction in year of contribution.</p> <p>May be eligible for tax credit of up to \$500 per year for each of first 3 years for cost of starting plan.</p>	<p>PROS:</p> <p>Tax delayed until withdrawal.</p> <p>Administration is easier and less costly than 401(k) plan (e.g., generally, no filing requirements).</p> <p>Employees may contribute.</p> <p>CONS:</p> <p>No loans.</p> <p>Employer must contribute each year.</p> <p>Employer contributions are always vested (so have no retentive value).</p>	<p>Basically, a simplified version of a 401(k) plan.</p> <p>If employer grows to have more than 100 employees, the plan can easily be terminated, and employees can rollover their savings into a new plan, such as a 401(k) plan.</p> <p>Comparison to SEP:</p> <ul style="list-style-type: none"> • SIMPLE requires employers to contribute each year, • SIMPLE is limited to employers with 100 or fewer employees, • SEP cannot permit employee contributions, • SEP limits total contributions to 25% of compensation.

BROAD-BASED EMPLOYEE INCENTIVE ARRANGEMENTS

D. Employee Stock Ownership Plan (“ESOP”)

DESCRIPTION	RESTRICTIONS	TAX	PROS / CONS	COMMENTS
<p>A plan and trust established by an employer that acts as a qualified defined contribution retirement savings plan. Similar to a 401(k) plan, except that contributions are invested in employer stock.</p> <p>Stock in the trust is allocated to individual employee accounts.</p> <p>May be “leveraged” or prefunded by using borrowed funds to buy shares, which are allocated to participants as the loan is repaid.</p> <p>Subject to requirements of Code and ERISA.</p>	<p>Subject to the same annual contribution limits as 401(k) plan.</p> <p>If a participant retires, distributions must start in the plan year following retirement.</p> <p>If a participant’s employment terminates other than by retirement, distributions generally must start no later than sixth plan year after termination of employment. (In leveraged ESOP, distributions of shares acquired through a loan may be delayed until the plan year after the loan is repaid).</p> <p>Plan must meet minimum coverage requirements.</p>	<p>EMPLOYEE:</p> <p>No tax on contributions or earnings until distributed.</p> <p>Ordinary income on distribution.</p> <p>Penalty of 10% on distribution before age 59½ (55 if terminated), unless rolled over into IRA or successor plan.</p> <p>EMPLOYER:</p> <p>Contributions deductible up to 25% of aggregate compensation for all participants in plan.</p> <p>In leveraged ESOP, employer can effectively deduct principal and interest.</p> <p>Dividends can be deductible.</p>	<p>PROS:</p> <p>Employee motivation increased through ownership.</p> <p>Employer receives deduction on contributions.</p> <p>Leveraged ESOPs provide additional employer tax advantages.</p> <p>CONS:</p> <p>Equity dilution.</p> <p>Private companies must repurchase shares of departing employees.</p> <p>Allowing participant contributions may raise securities law problems.</p> <p>Cannot be used in partnerships and most professional corporations.</p> <p>Requires annual valuations.</p>	<p>According to the National Center for Employee Ownership, ESOPs are most often used to provide a market for the shares of departing owners of successful closely held companies, to motivate and reward employees, or to take advantage of incentives to borrow money for acquiring new assets in pretax dollars.</p>



APPENDIX C

Company Interview Questions

QUESTIONNAIRE

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Employees Matter Company Interview Questions

SJF Institute, which connects, inspires, and accelerates sustainable entrepreneurs and the fields that support them, is currently preparing an update to our well-received national report, *Beyond Paycheck to Paycheck: Wealth-Building Strategies for Venture Capital Funds to Use with Portfolio Companies and Their Employees* with a focus on identifying small to medium sized fast-growing entrepreneurial firms utilizing high road labor practices, particularly around employee engagement and employee ownership, and documenting any correlation between these practices and improved financial and business results.

QUESTIONS:

1. How many employees do you have?
2. Of these, how many are entry level or hourly?
3. Does your company include human resources initiatives in its core strategy? Is your HR Director part of the executive leadership team?
4. What employee engagement or employee ownership practices do you currently use in your firm (i.e., strategies to engage all employees toward shared company goals)?
5. Do you share equity broadly in the company? If yes, how broadly?
6. Do you have any practices to tie compensation/bonuses to overall company performance or team performance? Please describe.
7. Can you directly correlate improved financial and business results (for example, greater than industry average employee retention) with your employee engagement/compensation practices?
8. Can you quantify your rate of reduced turnover? What is average tenure of employees?
9. What about customer attraction and retention? Can you correlate better customer service with great employee practices?
10. What attracts employees to your company: wage levels, benefits, company reputation, work environment?
11. Does the company have any community service or philanthropy programs in place?
12. If you share ownership broadly, what spurred you to this practice? Did you have an epiphany or was it a more gradual evolution?



Helping entrepreneurs change the world

The SJF Institute connects, inspires, and accelerates sustainable entrepreneurs and the fields that support them. We empower companies that provide green solutions and build workplaces where employees can grow and thrive. We work with foundations, corporations and investors who believe in the power of entrepreneurship to change the world for the better.

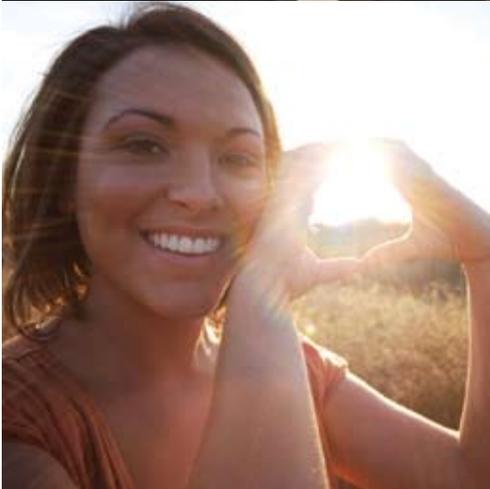


connect

We bring together diverse constituencies to help bridge traditional gaps between entrepreneurs, investors, economic developers, policymakers, and community leaders; we do this daily and through networking events and summits. We participate in industry-building initiatives and lend our expertise in speaking and judging at national and local entrepreneurial events.

"SJF's CleanLinks events provide the perfect venue for us to connect with cleantech industry leaders and financing partners that can help accelerate our new product launches and support our continued sales growth."

– Greg Frisby, CEO of Sensory Analytics



inspire

We define and disseminate best practices and conduct applied research to scale the fields of sustainable business, employee engagement, and impact investing. This work includes the Green Jobs Award, research reports such as *Employees Matter: Maximizing Company Value Through Employee Engagement*, CEO panels, and webinars highlighting innovative entrepreneurs and practitioners.

"Inspiring examples of innovation and turning green into profits and ethics."

– 2009 SJF Summit on the New Green Economy Attendee



accelerate

We enable sustainable entrepreneurs to go further, faster through direct assistance, Getting Ready for Equity™ workshops, and mentorship programs, leveraging the expertise of our affiliated impact investment fund, SJF Ventures. We provide unique support around employee engagement and broad based ownership.

"Assistance from SJF Institute helped position us to be a stronger company when seeking investment." – Michael Shore, CEO, FLS Energy



connect. inspire. accelerate.



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