

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.”

ENDNOTES

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