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## Sidebar Profiles

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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.

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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.

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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.”

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KEY TAKEAWAYS:

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

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## 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.

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KEY TAKEAWAYS:

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

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## 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.

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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.**

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## 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.

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KEY TAKEAWAYS:

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

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## 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.*

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KEY TAKEAWAYS:

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

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## 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."

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KEY TAKEAWAYS:

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

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## 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.**