ESOP Committees: An Overview

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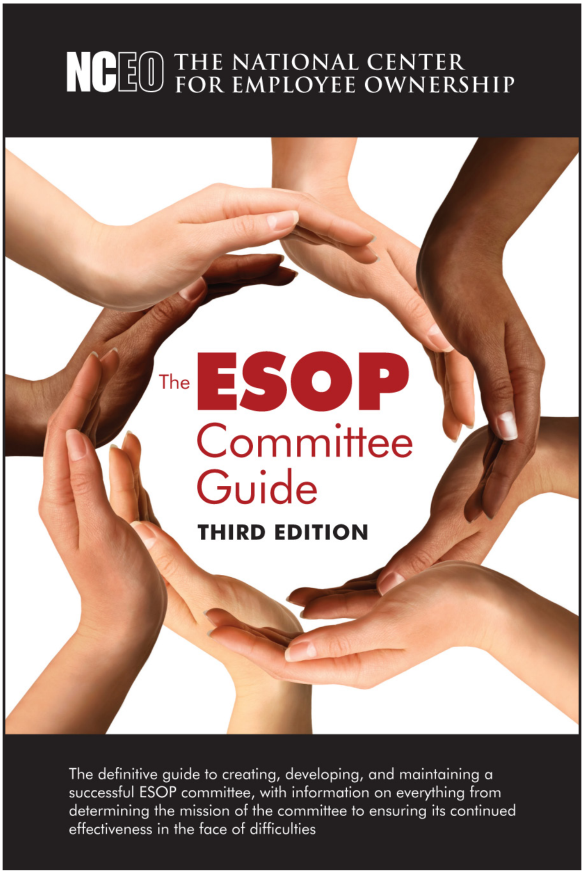

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CHAPTER 1

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ESOP committees fulfill different roles at different companies. Some are legal committees that advise and/or direct the ESOP trustees on fiduciary issues relating directly to the ESOP. Other committees provide opportunities for employees to train, educate, and communicate ownership messages to employees, and/or to advise senior leadership on operational and business issues. An ESOP committee's goals should inform its structure and membership composition.

This chapter provides an overview of ESOP committees: their goals, the scope of their activities, their membership composition, their evaluation, and the resources required for them to function optimally.

What Is an ESOP Committee?

An ESOP committee can be any group of employees assigned to any set of legally permissible ESOP and ownership-related tasks in an ESOP company. ESOP committees differ from other types of employee committees in that they support the achievement of a company's ownership objectives. This definition includes a wide variety of committees with different responsibilities.

Companies have different ownership objectives that support their overall strategic direction in varying ways. Ownership objectives may be financial, but they may also be cultural and operational. Some examples include:

- increase the value of the ESOP for employees and retirees
- encourage "ownership thinking" for all employees, allowing them to take initiative to solve customer and company problems
- foster "ownership behaviors" for all employees by improving everyday behaviors that support business goals

Because ESOP committees support the company's ownership objectives, which differ from company to company, ESOP committees can vary widely in activities and structure. Nevertheless, ESOP committees typically have one or more of the following objectives:

- to provide *fiduciary direction* to the ESOP trustee
- to serve as *ESOP advocates*, communicating the ESOP and keeping employee ownership visible to the workforce as a whole
- to make *recommendations to senior leadership* about various ESOP-related issues
- to provide *two-way communications* between employee-owners and senior leadership
- to contribute directly to *improving business performance* and achieving the company's strategic goals

Depending on the goals, ESOP committees may be engaged in various activities:

- *education:* ESOP education and training for employees, financial literacy education
- *motivation/celebration:* celebrations, awards, event planning
- *communication:* gathering employee input, providing feedback to senior leadership
- *advisory:* making recommendations to senior leadership about employee-related issues

This list of goals is not exhaustive—other objectives are certainly permissible, within existing legal constraints (mostly legal restraints arising from pension and labor law). Although these goals share similar elements, they may result in distinct activities and responsibilities for the ESOP committee. Committee goals may be captured in a formal mission statement and/or charter, or maintained informally in committee records. ESOP committees may also be called different names, such as "Ownership Committee," "ESOP Communications Committee," "ESOP Advisory Council," "Employee Ownership Team," or "ESOP Fiduciary Committee." These names often indicate the committee's objectives and responsibilities. Whatever the case, committee members should understand the committee's objectives and be clear about what they are trying to accomplish.

The Big Picture: Linking Ownership to Improved Performance

ESOP committees often play a key role in creating an ownership culture to drive business performance. Many companies try to cultivate an ownership culture, where employees think and act like owners—they take responsibility for their own jobs, understand the business, take initiatives to improve the company performance, and provide input into decisions that affect them.

Research completed during the last 20 years consistently indicates that employee ownership is clearly associated with business performance improvement. However, sharing stock ownership alone does not improve company performance as measured by sales growth, growth in the number of employees, or operating cash flow performance. Researchers have found a more specific link: those companies that *combine employee ownership with participation* perform better than they did before implementing an ESOP, and they perform better than similar companies that are not employee-owned.[1]

These results indicate that ESOP companies that implement key elements of creating an ownership culture (e.g., sharing company strategies and financial information, employee business training, opportunities for employees to have input into daily job decisions, or team-based decision-making) experience performance improve-

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1. See the studies summarized in *Employee Ownership and Corporate Performance*, 2011 revision (Oakland, CA: NCEO, 2011).

ments greater than those of comparison companies. The data make it clear that employee ownership can provide substantial financial gains for companies beyond tax benefits. These performance improvements, however, are not automatic—they can be achieved only with employee engagement and participation.

An ESOP committee can contribute to improving company performance as part of an overall effort to build an "ownership culture." Many companies have achieved significant success in this effort—several are profiled later in this book. ESOP committees have been explicitly designed, supported, evaluated, and modified over time to focus on performance improvement goals that support each company's overall strategic ownership objectives. Some provide education and training around understanding financial information so that employees know how their behavior affects company performance, while others provide employees an opportunity to give input into operational strategy.

The development of an ownership culture is a complex and lengthy process, and a full discussion of these challenges is beyond the scope of this chapter.[2] This chapter will mention the opportunities and challenges in using your ESOP committee as part of a broader strategy to create an ownership culture. The ESOP committee by itself, even at its most effective, is only one component in the broader process.

How Do the Core Principles for All Teams Apply to ESOP Committees?

Because an ESOP committee is a group of individuals working together, the basic principles of effective teams apply to ESOP committees. To function effectively, ESOP committees should have the following characteristics:

2. For more information on how to develop an ownership culture, see "Building Long-Term Value: Developing a High-Performance Ownership Culture" by Virginia J. Vanderslice and Alexander P. Moss, available at http://www.praxiscg.com/published-work/building-long-term-value-developing-high-performance-ownership-culture.

- *Goals*. ESOP committees should be established to meet specific goals. All of the other committee characteristics, such as its membership, authority and responsibilities, depend on these core objectives.
- *Structure*. ESOP committees should be structured appropriately to meet their goals—the number of members, member qualifications and representation (both individually and for the committee as a whole), member selection, subcommittees, decision-making, and other operational processes should support effective achievement of committee goals.
- *Resources*. ESOP committees should have access to the resources necessary to achieve their goals. In addition to the time commitment to conduct committee work and appropriate funding, members should have access to relevant information and access to individuals representing other functions within the company, such as senior leadership, finance, human resources, and operations.
- *Evaluation*. ESOP committees should be evaluated and modified as their environment and/or goals evolve over time. This evaluation should be conducted by the committee itself and by its organizational sponsor—whomever the ESOP committee reports to.

The remainder of this chapter addresses how these general issues are applied in the context of different ESOP committees.

Types of ESOP Committees

There are three common types of ESOP committees that may be distinguished by the nature of their duties and the source of their authority: ESOP administrative/fiduciary committees, ESOP communications committees, and labor-management ESOP committees with negotiated authority.

Type 1: ESOP Fiduciary and Administrative Committees

ESOP fiduciary and administrative committees focus on decision-making and administration relating to the ESOP plan itself. ESOP fiduciary committees advise the ESOP trustee in making decisions about the ESOP itself, from purchasing and selling shares to selecting professional advisors, rather than advising company leadership about ownership communications and/or company operations. In general, fiduciary committees have specific legal obligations and constraints and are "named fiduciaries" under the Employee Retirement Income Security Act (ERISA).[3] Fiduciary committees are most common when the ESOP trustee is an external party (often a trust company affiliated with a bank), rather than an inside party. Figure 1-1 illustrates the position of an ESOP fiduciary committee in the company's overall governance structure.

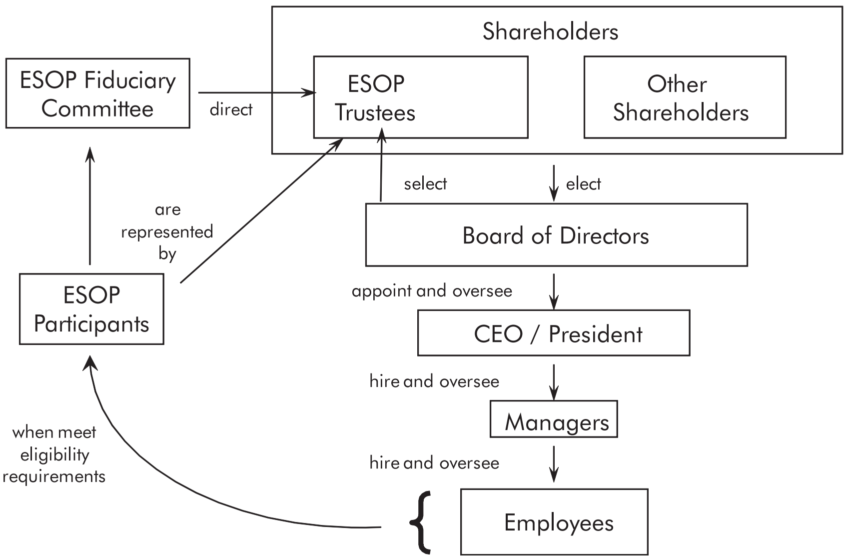

Figure 1-1. Sample company structure with ESOP fiduciary committee

An ESOP administrative committee focuses on the operation of the plan and on the management of plan assets. This type of committee may or may not be a named fiduciary in the ESOP plan, depending on its range of responsibilities and authority, and it may have only advisory power and no formal authority to make decisions

3. A complete description of these ERISA duties is well beyond the scope of this chapter, but additional information is available in chapter 2 of this book and in Dina Schlossberg and James Steiker, "ESOP Fiduciary Committees," *Journal of Employee Ownership Law and Finance* 12, no. 3 (summer 2000).

regarding the ESOP. While some administrative committees are not named fiduciaries, they may still intentionally or unintentionally act as fiduciaries depending on the types of decisions they make and actions they take. All committees involved with any aspect of managing or decision-making regarding ESOP plan assets should regularly consult legal counsel to understand their range of duties and to avoid unintentional legal liability.

ERISA requires that ESOPs must have trustees, but ESOP companies are not required to have ESOP fiduciary or administrative committees. Many ESOP plan documents refer to an "ESOP Committee." In most cases this refers to the committee with specific ESOP fiduciary and/or administrative functions, not the broader communications functions. Many ESOP companies do not want their less formal ESOP committees to make fiduciary decisions or manage plan assets. The essential point is that an ESOP fiduciary and administrative committee often serves in a formal legal capacity, and the responsibilities (and risks) borne by the committee are regulated under ERISA.

It is critical not to confuse this type of ESOP committee with the other types, which advise *company leadership* (rather than advising the ESOP trustees) on various *company issues* (rather than ESOP trust issues) and which generally are not fiduciaries and do not face the same level of regulatory scrutiny and risk. Issues facing ESOP fiduciaries, including fiduciary committees, are addressed in many other venues in the ESOP community. While these issues are not the main focus of the remainder of this chapter, we will identify some of the distinctions as we discuss issues addressed by other kinds of ESOP committees.

Type 2: ESOP Communications Committee

In contrast to an ESOP fiduciary and/or administrative committee, an ESOP communications committee is often an advisory body to management on various ESOP-related communications issues. The committee may have explicit authority to develop its own budget and conduct a broad range of tasks, such as delivering ownership and/or business training, conducting new employee orientations, publishing newsletters, soliciting employee input on various operating and/or employee policy issues, and/or other communications tasks.

ESOP communications committees are accountable to senior leadership. With a few exceptions, discussed below, company leadership can delegate any of its powers and duties to the ESOP communications committee. This differs profoundly from an ESOP fiduciary committee, which gets its authority from the ESOP document and whose powers and duties are regulated by ERISA (characterized as a "Type 1" committee above). Figure 1-2 illustrates the position of an ESOP communications committee in the company's overall governance structure.

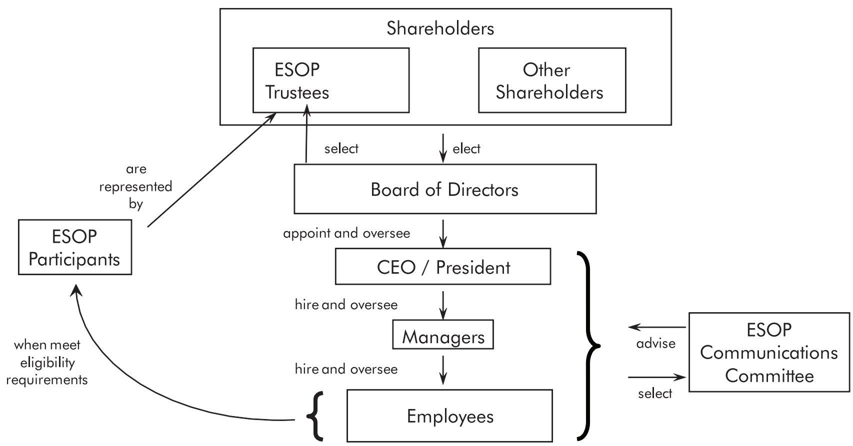

Figure 1-2. Sample company structure with ESOP communications committee

It may be obvious, but always worth repeating, that management cannot delegate any of its powers and duties to the ESOP communications committee that would violate the law or regulatory limitations. For instance, management may not delegate to the ESOP communications committee any powers that would, in effect, establish a union under the National Labor Relations Act (NLRA, the federal law that governs labor-management relations). For example, if management appoints a committee that includes both managers and nonmanagers and delegates to this committee the formal authority for making decisions about wages, hours, and/or other terms and conditions of employment, this may be interpreted as creating a "company union," and should be avoided, as these types of negotiations may generally be conducted only in the context of collective bargaining. The broader point is that ESOP companies should be aware that there are some limits on what they can do and should seek appropriate legal advice to avoid inadvertent regulatory conflicts.

Some ESOP communications committee may have no formal authority at all, and may serve solely as an advisory committee to senior management (or to management and labor leadership). Some companies are most comfortable with this structure because it does not create as much confusion over decision-making. An ESOP communications committee with no formal power can generally make recommendations on a variety of issues. Because it does not make final decisions, it can be flexible and can become involved in many policy areas. It may make recommendations including the types of ownership and business training needed, how best to design and deliver such training, changes to the ESOP plan to address employee concerns (such as concerns regarding eligibility and vesting requirements), operational issues concerning improving business performance, and even governance issues including various board of directors decisions and/or ESOP trustee decisions. This committee does not offer binding advice but rather serves as a two-way communications channel between employees and leadership and governance bodies. (See figure 1-2.)

Whenever this type of committee reaches an internal decision, it simply sends its recommendation to leadership for review and approval. Other companies find that this limits the effectiveness of the ESOP committee and places additional burdens on leaders to review recommendations and actions that might be more efficiently delegated to the committee within reasonable limits. As a result, many companies prefer to delegate limited but meaningful authority to their committees. An ESOP committee may have authority in some areas (e.g. relating to ESOP education) and only an advisory role in other areas (e.g. benefits, and/or operational performance enhancement opportunities).

Type 3: Joint Labor-Management ESOP Committee, with Negotiated Authority

Companies whose employees are represented by unions under collective bargaining agreements often negotiate the powers of the ESOP committee and related issues.[4] The resulting ESOP committee tends to reflect the broader relationship between labor and management in an ESOP company.

When the union has had little or no role in the ESOP and it prefers to bargain for non-ESOP benefits. In these cases, the ESOP committee looks very similar to the other types described above with little, if any, union involvement. The primary difference is that management may not delegate to the ESOP committee any powers or duties that may have been reserved for labor and management under the collective bargaining agreement. In other words, the ESOP and the collective bargaining agreement cover different issues, and the ESOP committee may not infringe on collective bargaining issues.

When the union is actively involved in establishing or operating the ESOP. Participation by bargaining unit members in the ESOP is much more common, and the terms of their participation in the ESOP may be bargained within the framework of the NLRA. This process does not require an ESOP committee, but labor and management may negotiate whether to have an ESOP fiduciary committee, an administrative committee, and/or an ESOP communications committee, as well as their respective roles and members. In these cases, the ESOP committee, whatever its form, assumes authority delegated to it by the collective bargaining process (rather than by management alone). It is therefore accountable to both labor and management under the terms of their agreement.

4. A full discussion of labor-management issues in ESOP companies is beyond the scope of this overview. Further information is available through the Ohio Employee Ownership Center at Kent State University.

ESOP Committees Should Be Structured Appropriately to Meet Their Goals

Once the purposes for the ESOP committee are clear, its structure should be designed accordingly. The committee's structure includes aspects such as the number of members, the criteria for membership—both for individual members and for the overall composition of the committee, the selection process for members, and the committee's decision-making processes. Chapters 4 and 5 of this book have more information on structuring committees, but because fiduciary/administrative and communication committees have significant different objectives, they will be discussed separately in this chapter. Because joint labor-management committees tend to take the form of either a fiduciary/administrative committee or an ESOP communications committee, they will be mentioned in the context of the other two types of committees.

ESOP Fiduciary and Administrative Committees

Committee Size

ESOP fiduciary and administrative committees are typically small, usually two to five non-ESOP shareholders and/or senior managers. The size of the committee reflects the technical nature of its responsibilities and decisions and the need to have members with appropriate knowledge who are able to understand and bear the fiduciary risk. In union companies where the union is actively involved with ESOP issues, the ESOP committee may include labor representatives, and the size of the committee may increase accordingly. Still, large ESOP fiduciary and administrative committees (more than eight members) are extremely rare in our experience.

Membership Qualifications

This type of committee requires members who can understand and fulfill their complex legal roles. Fiduciary committee members need to understand that their role is to represent and act in the exclusive best interests of ESOP participants as a whole—and not to represent the narrower interests of their various "constituents," (e.g. management, employees, or bargaining unit members). This aspect of the fiduciary committee's duties is not negotiable because it is a function of the underlying ERISA legal framework.

Many companies choose to restrict membership on the ESOP fiduciary/administrative committee to senior management. Other companies seek to involve nonmanagement employee-owners in what they believe is the "real ESOP decision-making," and these companies may include nonmanagers on the committee. In either case, companies should provide clear direction and education to committee members about their legal duties and responsibilities, both initially and on an ongoing basis. Failure to do so can not only result in an ineffective committee but also expose the ESOP and the company to significant legal risk. The good news is that the ESOP community is providing more in-depth resources for fiduciary/administrative committee members and trustees to learn about their duties and how to fulfill them effectively.

Membership Selection

The company's board of directors usually selects ESOP fiduciary/administrative committee members, based on the individuals best suited for the role. ESOP fiduciary/administrative committees are not meant to be representative bodies.

Communications Committees

Committee Size

Communications committees typically have 8 to 12 members. There are no legal requirements on committee size, but committees should be large enough to represent the different perspectives in the company, and small enough to permit individual members to contribute meaningfully in meetings. With fewer than 8 members, committees can fail to recognize the concerns of a broad range of employee-owners. With more than 12 regularly attending members, committees can easily become unwieldy. These are rules of thumb, however, not hard and fast principles. Some companies have managed successful committees with more members, by using subcommittees or other structures, or with smaller committees of 4 to 6 members.

In smaller companies, with a few hundred employees and only a few locations, a single ESOP committee may be sufficient, provided that its members represent a broad range of employees. In larger companies, with thousands or tens of thousands of employee-owners and/or many different locations, a cascading structure may be more appropriate. This means that individual operating divisions, plants, or profit centers may have their own local committees that work on local issues, and the company as a whole may have a top-level steering committee to coordinate on cross-divisional and company-wide ESOP issues. In companies with unions, the entire structure may be negotiated and become subject to the collective bargaining agreement.

Broad Representation

Most committees benefit from a "diagonal cross-section" of the workforce. Its members represent many different experience groups within the firm—different locations, seniority levels, professional and/or job classifications, race and gender diversity, and so on.

The cross-sectional representation captures the various experiences and perspectives that exist within the firm so the ESOP committee has access to the broadest range of thinking. Secondly, it also builds the credibility of the ESOP committee because employee-owners feel represented by their peers.

Many companies wrestle with whether to include senior management on the committee. It is critical that senior management demonstrate a commitment to the goals of the committee. In most companies, this is best served by having at least one senior manager serve directly on the committee, to provide legitimacy, give immediate feedback, and report back to the management team. Senior managers should, however, carefully avoid any tendency to take over. Effective senior management support is a delicate balancing act. An excess in either direction—too strong a management presence, or not strong enough—has crippled many ESOP committees.

Effective Mix of Skills

Committees must have members who are capable of doing its core work—either members already have these skills or are able to develop them. These skills may include managing team dynamics, facilitating meetings, managing projects, understanding the ESOP, understanding the business, working effectively with senior leadership, communicating well with peers, delivering trainings and presentations, and designing newsletters and other print and/or electronic publications. The specific skills required depend on the committee's goals and responsibilities. Failing to ensure that the committee as a whole has the necessary skills to complete its core tasks can result in committee ineffectiveness.

Some skills can be learned relatively easily, provided that at least someone on the committee already has the skills. These include running effective meetings, and project planning and monitoring. Other skills require more baseline capability and/or involved development. For example, a committee whose primary purpose is to communicate what the ESOP is and how it works will need to have members with effective writing and stand-up training skills.

Committees should also have an "internal learning" agenda, i.e. a plan to develop the skills and knowledge of its own members. (This is different from the "external training" agenda, i.e. the efforts of the committee to provide training to the rest of the company.) In other words, committees should have a plan to educate new members to get them up to speed and to keep all members learning on an ongoing basis. In some cases, ESOP committees have adopted a strategy of "certifying" their members. Certification may be structured so that it must be completed either before or after members are eligible to serve on the ESOP committee.

Membership Selection

There are many methods for selecting ESOP committee members. Some ESOP committees have members who are selected by senior leaders, while others have direct elections. Still others use some hybrid selection process, including nomination from the workforce and final selection by leadership, or vice versa. In companies in which the union is actively participating in the ESOP, the selection process is generally divided such that bargaining unit members pick their own representatives and nonbargaining unit employees pick theirs. Most ESOP communications committees have a selection process that involves some combination of direct voting and appointments.

Selecting the ESOP committee members provides an important opportunity for employee-owners to have "democratic" input and builds credibility. However, direct elections with no prior skill qualification or skill development plan can potentially undermine the committee's capacity. In the extreme, this may lead some to assume that because the committee is ineffective, democratic input does not work well.

The selection process should incorporate some mechanism to ensure that committee members have the required skills. A company can develop criteria and then solicit nominations that are restricted to individuals who meet the criteria. This "prequalification" ensures that only qualified employees are eligible to run in the first place, and allows the rest of the process to be more democratic. The final selections can be made either by senior leadership, by the committee itself, or by open elections (again, limited to the qualified nominees). Open elections create a greater sense of fairness and openness, while selection by leadership or the committee from among a slate of qualified nominees provides more control in ensuring the strongest overall final committee composition.

Member selection procedures often evolve over time. Many companies begin by appointing all (or at least many) of the initial ESOP committee members, to guarantee a good mix of skills and voices at the beginning. Over time, as old members rotate off the committee, those slots can be filled by elected representatives who meet whatever criteria have been developed.

Committee Decision-Making Processes

ESOP committees make different kinds of decisions, and the decision-making processes should match the type of decision being made. The formal decision-making process may be specified in the charter, or the committee may experiment and let it evolve.

Examples of decision-making processes include the consensus of all members, a final determination by the committee chair, weighted voting to give larger divisions and/or locations a larger voice (if they are not already represented by more committee members), and many others. As in all effective committees, clarity about the decision-making process is important to the accomplishment of committee goals. It is essential that committee members understand the decision-making processes and their limitations.

In practical terms, many committee decisions and recommendations are not controversial, once the committee has fully researched the question and considered its alternatives. In these cases, many committees do not feel the need to have a formal vote. The chair simply acknowledges that the decision has been reached. However, where there are strong feelings and differences of opinion that are not fully resolved after reasonable research, discussion, and debate, most committees find that voting is the fair way to reach a final decision or recommendation.

Committee Meetings

Committees should carefully consider what meeting schedule would be appropriate. The committee needs to meet often enough to accomplish its goals without creating an excessive burden. Some companies choose to have the committee meet monthly and review a standard agenda. This creates a regular process for reviewing progress toward completing committee activities, but the meetings can become stagnant unless committee members are making progress on the tasks.

Other committees schedule tasks and outcomes over the course of several months or a year, and committee members may manage their tasks independently and meet only when necessary. For instance, during the development of a specific training program, or when a newsletter is due, or in advance of a meeting to explain the ESOP participant statements, the committee (or a sub-team) may require significant meeting time to plan and coordinate the event. At other points, the committee may not meet at all. Committees that operate in this manner find it important to have a calendar or other scheduling tool to ensure that they reconvene with appropriate advance notice before each of their assigned tasks is due.

In addition to regular planning meetings or meetings around specific tasks and assignments, many committees have annual or biannual planning retreats, lasting usually one to two days. These planning retreats provide committee members more time to engage in team-building exercises, to evaluate and reflect on their work over the past year, to establish new goals, to generate and prioritize new ideas, and to draft a work plan for the upcoming year.

ESOP Committees Should Have Access to the Resources Necessary to Meet Their Goals

Communications Committees

Time

The primary resource that an ESOP committee needs is time, for committee members themselves and for other employees who participate in committee activities. The cost to the company depends on the range of activities. A few examples:

- *Employee ownership and business training*. These activities may require substantial time, both from the committee members (or a subcommittee) designing the training and then from employees attending training sessions.
- *Newsletters and other publications*. Preparing written documents (print or electronic) takes less time up front than designing training activities but requires an ongoing commitment that can add up in total time. The ESOP committee may take primary responsibility for these activities, or it may simply contribute ESOP-related content to other existing company communication initiatives.
- *Hotlines and frequently asked questions (FAQs)*. Various committee-sponsored activities along these lines can require a significant investment of time to set up but less time to maintain. As employee-owners become more familiar with the ESOP over

time, new questions will emerge, and the committee will need to update these resources.

- *Conferences.* Many committee members find that both attending regional and national conferences on ESOP-related issues and conducting company-to-company visits with other ESOP companies can help them tremendously with generating new ideas and learning from others' experiences. The cost for national conferences can be significant when travel and conference time, lodging, and registration fees are factored in. Local ESOP meetings and company visits can be more affordable in terms of both time and money.
- *General availability.* Committee members need time to manage ongoing mechanisms to solicit and respond to employees' questions about ownership and business issues. These may include committee "office hours," brown bag lunches, and regular update meetings. All of these efforts take place outside of the context of regular committee meetings.

ESOP committees function best when they have both specific objectives and time constraints. In this way, the committee is forced to prioritize its tasks to achieve its goals within its budget. As is often the case with committees and task forces, unlimited (or unstated) time budgets run the risk of encouraging the expansion of the tasks to fill the available time, with lost productivity. As with other committees, advance planning, goal-setting, and ongoing monitoring are the essential tools to ensure effective use of committee time and other company resources.

Access to Other Key Individuals Inside and Outside the Company

ESOP communications committees require regular interaction with other key individuals, depending on the issues that the committee is addressing. Early in its life cycle, the committee will require special access to key ESOP experts—either inside the company or the company's outside advisors—to build expertise on ESOP issues. Over time, most ESOP committees try to cultivate expertise in the committee itself, so that experienced members can train newer members. However, even mature ESOP committees benefit from and appreciate the opportunity to improve and refine their knowledge about the ESOP.

The committee may also need access to other individuals in different areas in the company. For example:

- *Senior management* can answer questions regarding company strategy and direction, and it should be actively involved in monitoring and evaluating the committee.
- *Human resources* can address questions regarding benefits and training.
- *Finance and administration* can address questions regarding the ESOP statement process, the connection between employee-owner actions and their impact on share value, and general business issues.
- *IT/MIS* can address and implement questions of intranet/internet communication and other technology issues. This support is critical for companies with geographically dispersed workforces and for committees that prefer to rely more on Web-based communications.

Money

An ESOP committee may spend money in several ways, depending on its objectives. ESOP committees may request funds to support various communication initiatives, such as print and/or electronic tools, or celebratory events. Committee members often attend local, regional, and national ESOP conferences, both to share their experiences and to learn from the experiences of other employee-owned companies.

Training to improve employee-owners' understanding of ownership, the ESOP, and/or the business can be one of the more costly activities undertaken by many ESOP committees. Some companies choose to assign the tasks of designing and conducting this type of training to the ESOP committee, while other companies assign these tasks to their human resources or other training groups. Additionally, a range of outside fee-based training opportunities in the ESOP market are specifically targeted to educating committee members and employee-owners. If one of the ESOP committees' core objectives is to educate employee-owners, then sufficient resources should be dedicated to develop internal ESOP training capabilities.

In summary, the ESOP committee will require access to a range of resources within the company, above and beyond the time of its members, to achieve its goals.

ESOP Committees Should Be Evaluated Regularly

ESOP Fiduciary/Administrative Committees

Evaluation for ESOP fiduciary/administrative committees consists primarily of periodic review by the board of directors to ensure that the committee is fulfilling its fiduciary and/or administrative duties. The fiduciary committee's decisions may also be subject to review by the U.S. Department of Labor (DOL), in the context of regular audits that the DOL performs of all ESOPs. The remainder of this section refers to ESOP communications committees.

Communications Committees

Communications committees, like all teams, require ongoing monitoring and evaluation. Over time, even committees that function very well early on will need to adapt to changing company circumstances. The most effective evaluation processes provide data to enable the committee to continuously improve its efforts. In support of this, ESOP committees should be evaluated on a 360-degree basis: by the employee-owners they serve, by senior leadership, and by the ESOP committee members themselves. This means that performance evaluation for the committee should be one of the tasks on the annual calendars of both the committee itself and of senior leadership.

Many ESOP committees have objectives that include long-term learning for employee-owners and performance improvements for the company. As with most evaluation, this presents a challenge: the committee's long-term goals may include things that are difficult to measure in the short run and that depend on the combined effort of the ESOP committee with other company efforts. Yet it is often not acceptable to wait many years to determine whether the committee's efforts are effective. Accordingly, ESOP committees may establish a series of short- and medium-term measures against which they can judge their progress and continually make adjustments to better reach their goals. As with any process improvement effort, there are different levels in the process, with shorter- to longer-term goals.

Process Review

The easiest thing to measure is whether the committee is conducting the activities that it committed to undertake in its work plan. Is it producing newsletters, conducting training sessions, answering employee-owners' questions, and/or completing other tasks on its work plan? If these "process" activities are occurring, and if senior leadership has reviewed the work plan, then both the committee and leadership will agree that "the right things are happening, and we should expect improved outcomes in the future."

As noted earlier, a new ESOP committee's first challenge is to identify its goals and then to establish a work plan to achieve them. As the committee develops, process evaluation consists of reviewing whether the committee has completed its work plan and determining whether members require further guidance or assistance to finish their agreed-upon tasks.

Outcome Review

Each activity should have targeted results that depend on the committee's core goals. For example, if a primary objective is to train employee-owners about how the ESOP works, then this second level of evaluation involves assessing whether employees who have been through the training have improved understanding. Some companies conduct rigorous testing, both quantitative and/or qualitative, while others rely on more intuitive measures, such as whether employee-owners "seem to be asking more of the right type of questions" or "appear to be paying attention to details better." Various survey tools are available for measuring these outcomes.[5] Intuitive measures are limited and can be quite misleading, but formal surveys can be time-consuming and expensive to design and administer.

Many companies build a brief assessment tool into each individual activity. These tools are most useful when they are designed to gather information on how the committee can improve its effectiveness.

For example:

- For training programs, presenters may ask participants to fill out brief "before-and-after" surveys covering a combination of technical and self-assessment questions.
- For newsletters, the committee may include a tear-off feedback form to get quick comments back from readers.
- For overall data, committee members may occasionally each interview a few (three to five) employees at random regarding the effectiveness of committee activities as a whole.

Impact Review

The final evaluation level assesses whether the committee is achieving its desired impact on the company. These longer-term measurements are the core success metrics that many companies seek to achieve with their ESOPs. If the ESOP committee's goals include improving understanding of the ESOP and of the business, do employee-owners in fact understand these issues better as a result of the committee's efforts? Does that understanding last beyond the week in which people attended the training? Has their behavior changed in ways that are contributing to business success? If the goals include improving specific operating performance measures, what is the effect on these measures over time?

It is possible that the ESOP committee can achieve its process and outcome objectives but still fail to contribute meaningfully to its impact objectives. In this case, it is essential for senior leadership

5. The NCEO has comprehensive employee survey services available. In addition to questions that have been developed and tested over time, the NCEO also provides benchmarking data from other companies along with your results.

and the committee to reexamine the committee's goals and action plans to determine whether the goals are unrealistic, whether the action plans are not sufficiently focused on target impacts, or whether other factors external to the ESOP committee are interfering with achieving the desired impact.

It requires several years to see a significant impact, and the ESOP committee is only one component of a broader ownership culture development process. In the meantime, the interim measures of process and outcomes provide early indicators of whether the ESOP committee is completing its assigned tasks and whether the short- and mid-term outcomes are heading in the right direction.

Building Durable Committees

Communications Committees

Chapter 6 of this book discusses the life cycle of ESOP committees, but in the early days ESOP communications committees need to balance two competing needs: first, the need for new members to join the committee and learn how it functions, and second, the need to provide continuity so that the committee as a whole benefits from what its individual members have learned in the past.

These two needs can be met by establishing specific membership selection and rotation criteria. First, a certain number of committee slots should be reserved for employee-owners who have never served on the committee before, to ensure that new voices and perspectives are heard and to provide opportunities for different people across the organization to serve. Without these criteria, ESOP committees can become and/or become perceived as clubby and exclusive. This can also contribute to an "us-and-them" feeling among committee members, who may feel that they are the only ones working to ensure that the ESOP is successful.

The second criterion is that, after the first three to five years, a certain number of committee slots may be reserved for employee-owners who have served on the committee in the past in order to ensure continuity. Without this criterion, ESOP committees tend to cycle to entirely new members every few years, and they then need to reinvent the wheel each time. In the early years, all committee members are new, and there are few people who have served in the past. Committees tend to forget (or never recognize) the importance of history, and often fail to build a mechanism into their structure to recapture the experience of past committee members. Some structural mechanism for maintaining the experience level of the committee is essential, and designing this into the committee member selection criteria is an easy solution.

Dedicated, creative people are the committee's most critical resource. Over time, finding people to do the job may be challenging, especially after the initial enthusiasm for the ESOP is replaced by more "business as usual" attitudes. Lack of interest in serving often occurs in young ESOP committees, where employee-owners literally have no idea what the committee's potential can be, but it also happens in mature committees that have achieved past success but have run out of momentum.

Some companies are fortunate to have a steady flow of volunteers, but many need to charge management and/or committee members with a specific recruitment function. Potential new members can be invited as guests to a meeting, sent to conferences to meet committee members from other companies, or offered training in committee-related areas, such as financial education, as inducements.

Communications committees may also experience stagnation after the first few years of activity, which are often focused on ESOP education. As employee-owners become familiar with the ESOP, the communications committee may struggle with developing new and meaningful activities. Once again, regular contact with other companies' committees at conferences or other venues can provide members with new ideas. Evaluation of the committee's activities and discussion with senior leadership can identify new areas of focus and refine how the committee can best support the company's ownership objectives. Many committees find that over time, they shift their efforts from basic ESOP education to broader training on how the company's business works. Committees may also increase their role as a communications channel and focus more on gathering employee-owner input for leadership.

Conclusion

ESOP committees contribute meaningfully to a variety of company objectives. Some function as fiduciary committees, advising the ESOP trustee on a range of ESOP issues. Others function as communications committees, advising management (and labor, in union companies) on a range of communications and operational issues. The most successful ESOP committees have clear goals, full support and resources to achieve their goals, and effective evaluation mechanisms. These committees are an integral component of ESOP companies' broader efforts to engage employee-owners in improving company performance for the benefit of all shareholders.