

## Leadership Challenges in ESOP Companies

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Effective ESOP leadership is different than effective leadership in companies with more traditional ownership structures. The opportunities are greater and so are the challenges. Leaders in all companies need the basics of business acumen, strategic perspective, market awareness, and the ability to develop and communicate a compelling vision. The challenges for leaders of ESOPs arise from a combination of the expectations of employee owners and the challenges of defining and building a sustainable ownership culture that drives company performance.

The greatest leadership challenge is creating a culture in which ownership is meaningful to employees so that the value of being employee owned is realized. When asked what makes ownership meaningful to them, employees cite a consistent set of factors: communication or being “in the know,” having a say, being treated respectfully, fairness, sharing in financial rewards and opportunities for development. Combined with the challenges of leading the people who are the co-owners of your company, there are several leadership challenges that are particular to leading in an employee ownership context.

- **Communication.** “If I’m an owner, I should know what decisions are being made and why; our short and long-term goals; our key financial indicators, how we’re doing and why; and, generally what’s happening in our company.” For leaders, responding to the expectation for open communication means being philosophically clear about what information will and won’t be shared and having the self-confidence to explain your position when asked. More transparency — sharing more information rather than less — not only builds trust between employees and leaders but also communicates that employees are respected as co-owners, which gives meaning to being an owner.
- **Participation.** Research findings have repeatedly shown that employee participation is an important factor linking ESOPs and company performance. Employees who understand the responsibility of being a co-owner of their company want to contribute to their company’s success beyond their jobs. This is an ownership attitude that is beneficial for leaders to encourage and support. The opportunity and challenge for leaders is to have a *participatory mindset*: who should be involved in what decisions in what way (be informed, give input, have decision making authority); and to structure ways for employees to take part in working through issues that impact the company. Participation opportunities could include possibilities such as committees or task forces focused on employee communications, specific problem solving groups, safety, health insurance

cost containment, process improvement, quality, environmental impact, community engagement, charitable contributions and capital investments. Participation will mean more to employees if committees and task forces are working on issues directly related to improving business performance.

Some leaders struggle with involving employee in strategic decisions because they believe employees won’t contribute enough to make adding them to the process beneficial. Rather than not involve employees in a process such as strategic planning, ESOP leaders with participatory mindsets are challenged to figure out the most valuable way to involve employees which might be contributing to the SWOT analysis or working on committees investigating new opportunities. The challenge for ESOP leaders is to provide a framework for maximizing employee participation, balancing the multiple benefits of employee engagement with organizational efficiency. Inviting employee participation is another means of communicating that employees are valued and respected.

- **Fairness.** Research has shown that even when leaders conscientiously think through decisions with fairness in mind, employees may not see decisions as fair if they are not involved in them. Fair process occurs, according to the authors of *Blue Ocean Strategy* (Kim & Mauborgne), only when three components are present: engagement, explanation and clarity of expectations. Even decisions that may negatively affect some employees are likely to be perceived as fair if employees have been part of the process in these three ways. However, when making hard decisions that will have negative consequences for some employee owners, leaders may want to avoid any or all of these steps. The consequence of avoiding them is likely to be lowered morale, distrust and employees not feeling respected. Because fair treatment is an expectation of employee owners, it is important for leaders of ESOP companies to build all three steps of fair process into their overall decision-making process.
- **Development Opportunities.** Employee owners expect the opportunity to learn new skills, gain knowledge and/or to take on new responsibilities. Providing training in leadership, management and or functional skills are all valued by employee owners along with opportunities to take on new challenges and responsibilities. Em-

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ployee owners who are provided with development opportunities say that those opportunities are among the most important factors distinguishing their company culture from the cultures of past employers.

In ESOPs where people are paid out the value of their ESOP accounts in five years and/or over five years, developing the people who will move into their roles is more important to them as individuals than it would be in non-ESOP companies. The challenge for ESOP company leaders is to build the responsibility for developing others integrally into the roles of all leaders and to allocate resources

- *Clarity about power & authority.* For some leaders, having their company become 100% employee-owned, makes them unclear about whether and how their power or authority has changed or changed now that the employees, together, are the owners. This seems to be particularly an issue if the founders continue as leaders post-ESOP. Decisions involving financial risk (e.g., capital investments, new product development, acquisitions) that founders previously may have made themselves now could affect the share value of employee owners. This may make leaders who have built successful companies by taking reasoned risks, more risk averse. Confusion about a leader's power and authority runs the risk of leaving an executive team feeling rudderless or, worse still, competing to fill the power vacuum. Leaders who are not clear about their authority may fail to hold their team accountable for either their behavior or for achieving agreed-upon goals. The leadership challenge for ESOP leaders is to understand their own power and use it well - making sure hard decisions get made, providing direction and creating an environment that empowers others.
- *Balancing individual's interests with the company's interests.* Being an employee owner neither guarantees a person a job nor relieves them of meeting performance expectations. Employee ownership is not an entitle-

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ment. Leaders of employee-owned companies often give greater consideration to the impact that decisions good for the company will have on individuals or groups of individuals, because those individuals are co-owners of the company. For example, an investment in an acquisition that isn't expected to payoff for five years could have a negative impact on share value. Employees expecting to retire in the next year or two may see a drop in value that won't recover before they leave. Planning for ways to protect the share value of those employee owners is one way to balance longer term company outcomes with short term impacts on individuals. Maintaining this balance and explaining decisions and the individual and company tradeoffs is an important challenge for ESOP company leaders.

- *Progressive HR policies.* Research at Rutgers has shown that progressive employee policies are another factor that links employee ownership with performance outcomes. Progressive policies engage employees or place trust in employees and let them know the company cares about them. Examples include Paid Time Off instead of separating sick days, vacation days and personal days; paid time for community volunteering; and, an allowance for professional development. Progressive HR policies contribute to employee engagement and are aligned with employees being owners. Whether or not HR policies are progressive depends on the mindset of the leader and how a leader then develops the company employee philosophy.

All in all, ESOPs create the opportunity for company leaders to build more successful companies. The challenges to do so require ESOP leaders to be better leaders than their peers in non-employee-owned companies.

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