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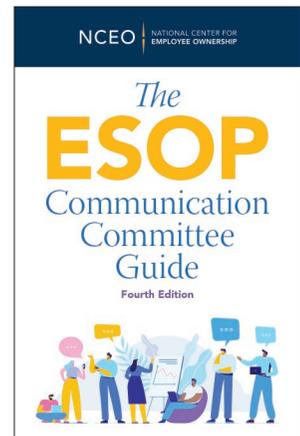
ESOP Communication Committees: An Overview (*excerpt*)

Alexander P. Moss, Linshuang Lu, and Virginia J. Vanderslice

REPRINTED FROM

The ESOP Communication
Committee Guide, 4th ed.

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ESOP Communication Committees: An Overview

Alexander P. Moss, Linshuang Lu, and Virginia J. Vanderslice

Becoming ESOP-owned presents a compelling opportunity for companies to tap into the psychological power of ownership and create an environment where employees feel, think, and act like owners. For some, this means strengthening and refining their existing culture, if they have already created a workplace with high transparency where employees feel engaged and empowered in their day-to-day work. For companies where this culture may not yet exist, becoming employee-owned is often the starting point for engaging employees in taking up greater responsibility for the success of the company. An ESOP communication committee (ECC) can play an important role in building and strengthening this ownership culture.

What Is an ESOP Communication Committee?

An ESOP communication committee is a group of employees with authority and responsibility delegated by senior management that supports an ESOP company's efforts in creating an ownership culture. The committee can take on different roles and activities, depending on each company's goals for its culture and what the company may already have in place for employee engagement and participation.

Common goals for changing company culture might include:

- Encourage “ownership thinking” for all employees, allowing them to take initiative to solve customer and company problems

2 | THE ESOP COMMUNICATION COMMITTEE GUIDE

- Foster “ownership behaviors” for all employees by improving everyday behaviors that support business goals

Common goals for ESOP communication committees might include:

- To serve as *ESOP advocates*, keeping employee ownership visible to the workforce as a whole
- 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
- To make *recommendations to senior leadership* about various ESOP-related and culture issues

Depending on the goals, ESOP communication 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, facilitating regular communication from the company
- Advisory: making recommendations to senior leadership about employee-related issues
- Innovation and problem-solving: fostering innovation and problem-solving

Occasionally, ESOP communication committees have activities outside the company, including:

- Advocacy: federal, state, or local lobbying for employee ownership; hosting legislator visits

- Community service: supporting local charitable organizations through donations and volunteering

This list of goals and activities is not exhaustive. There is no federal regulation that directs what ESOP communication committees need to be, so companies are free to determine what goals and activities of the ESOP communication committee will be best suited to support the company goals. ESOP communication committees also do not need to engage in all of the above activities and goals. Many focus on two or three select areas. Other times, there may be other committees or structures in the company that are already in place, where the committee only needs to coordinate efforts for alignment (e.g. many companies already have a committee responsible for innovation, continuous improvement, community engagement, etc.). Whatever the final mix goals, it is valuable to document them in a formal mission statement or charter,¹ and to make sure the senior management and committee members have a shared understanding of what they are. The goals can be revisited periodically to see if any revisions are needed.

An ESOP communication committee may also be called different names, such as “ownership committee,” “culture committee,” “ESOP advisory council,” “employee ownership communication committee,” or “employee ownership team.” These names often indicate the committee’s primary goals and responsibilities. Whatever the case, committee members should understand the committee’s goals and be clear about what they are trying to accomplish.

In the ESOP community, ESOP communication committees are often referred to as “ESOP committees.” This can be confusing because that same term is used to refer to ESOP fiduciary or administrative committees (the next chapter explains these differences in detail). 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

1. See chapter 3 for a sample ESOP communication committee charter.

have specific legal obligations and constraints and are “named fiduciaries” under the Employee Retirement Income Security Act (ERISA). 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. 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.

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. In contrast, an ESOP communication committee may advise company leadership (rather than advising the ESOP trustees) on various company issues (rather than ESOP trust issues), and the members are not fiduciaries and do not face the same level of regulatory scrutiny and risk. ESOP communication committees and ESOP fiduciary or administrative committees should be kept distinct. Issues facing ESOP fiduciaries, including fiduciary committees, are addressed in many other venues in the ESOP community. This book and chapter focus on ESOP communication committees.

The Big Picture: Linking Ownership to Improved Performance

ESOP communication 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 40 years consistently indicates that employee ownership is clearly associated with business performance improvement. 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.²

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

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.³ This chapter will mention the opportunities and challenges in using your ESOP communication committee as part of a broader strategy to create an ownership culture. The important thing to keep in mind is: building culture is not solely the ESOP communication committee's responsibility. A company's CEO, senior team, and other leaders play an essential role. The reason is simple; a company's culture is built by the actions, words, and values of its leaders. What they do, what they measure, what they pay attention to, how they reward other employees, and how they model behavior—these set the foundation for the underlying values, assumptions, and behaviors of the workforce.⁴ For example, if you want to foster long-term strategic thinking, you

2. For a review of the research on employee ownership and corporate performance, as well as ideas on how to implement policies that drive employee involvement, see Corey Rosen, *Beyond Engagement: How to Turn Your Company into an Idea Factory* (Oakland, CA: NCEO, 2020), available at www.nceo.org/r/beyond.

3. 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 <https://praxiscg.com/thought-leadership/building-long-term-value-developing-a-high-performance-ownership-culture/>.

4. Edgar Schein, *Organizational Culture and Leadership*, 4th ed. (Jossey-Bass, 2010)

may struggle if senior leaders make last-minute, reactive decisions. If you want to create a respectful workplace where people take a lot of responsibility, then your leaders need to develop and empower their teams, delegate meaningful authority, give constructive feedback (positive and negative), and refrain from micromanaging.

Sometimes the committee may be the important first step to building an ownership culture. Keeping a close relationship between senior management efforts and the committee's work will create the best chance for long-term success. An ESOP communication 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.

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

The basic principles of effective teams apply to ESOP communication committees. To function effectively, ESOP communication committees should have the following characteristics:

- *Goals.* ESOP communication 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 goals.
- *Structure.* ESOP communication 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), leadership roles, member selection, subcommittees, decision-making, and other operational processes should support effective achievement of committee goals.
- *Resources.* ESOP communication 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 communication 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 communication committee reports to.

Getting Started

Launching an ESOP communication committee is often part of a broader planned effort to strengthen or change the culture of the company. Components include: expectations for leadership behaviors, sharing financial information, and creating greater empowerment in supervisory relationships, etc. This plan may be developed as part of a strategic planning effort, or as a specific culture-planning exercise, often with additional assessment and data gathering. The goals of the committee are informed by the broader plan.

It is not uncommon, however, for companies to start an ESOP communication committee without having the larger overall plan for strengthening their culture. Creating a committee can be an early step and can inform future changes. The senior team often develops the preliminary draft of the committee charter and then begins the member recruitment process. Committee charters can range in their detail, but they generally contain the goals for the committee and its structure. The senior team's initial draft of the charter is often revised with input from the committee members, once recruited.

When members have been recruited, an initial planning retreat (one or two days) can be a strong way to launch a new committee, by orienting them to the ESOP and their role, giving them time to develop a one-year plan, and build relationships with each other that set the foundation for teamwork going forward. If a one- or two-day retreat is not possible, some companies have opted for a series of two- or three-hour in-person or virtual meetings, typically over the course of several weeks.

To read the last two-thirds of this chapter as well as the rest of the book, get your copy of *The ESOP Communication Committee Guide* at www.nceo.org/r/committee

About the NCEO

The National Center for Employee Ownership (NCEO) is a nonprofit organization that has supported the employee ownership community since 1981. Our mission is to help employee ownership thrive. We have more than 3,000 members because we help people make smart decisions about employee ownership, with everything from reliable information on technical issues to helping companies reach the full potential of employee ownership.

We generate original research, facilitate the exchange of best practices at our live and online events, feature the best and most current writing by experts in our publications, and help employee ownership companies build ownership cultures where employees think and act like owners.

Membership Benefits

NCEO members receive the following benefits and more:

- The members-only newsletter *Employee Ownership Report*.
- Access to the NCEO's members-only website resources, including the Document Library, ESOP Q&A, and more.
- Free access to both live and recorded webinars.
- Discounts on books and other NCEO products and services.
- The right to contact the NCEO for answers to questions.

To join as a member, order publications, or find more resources and data on ESOPs and employee ownership, visit www.nceo.org. Go to www.nceo.org/r/committee to buy the book this chapter came from.