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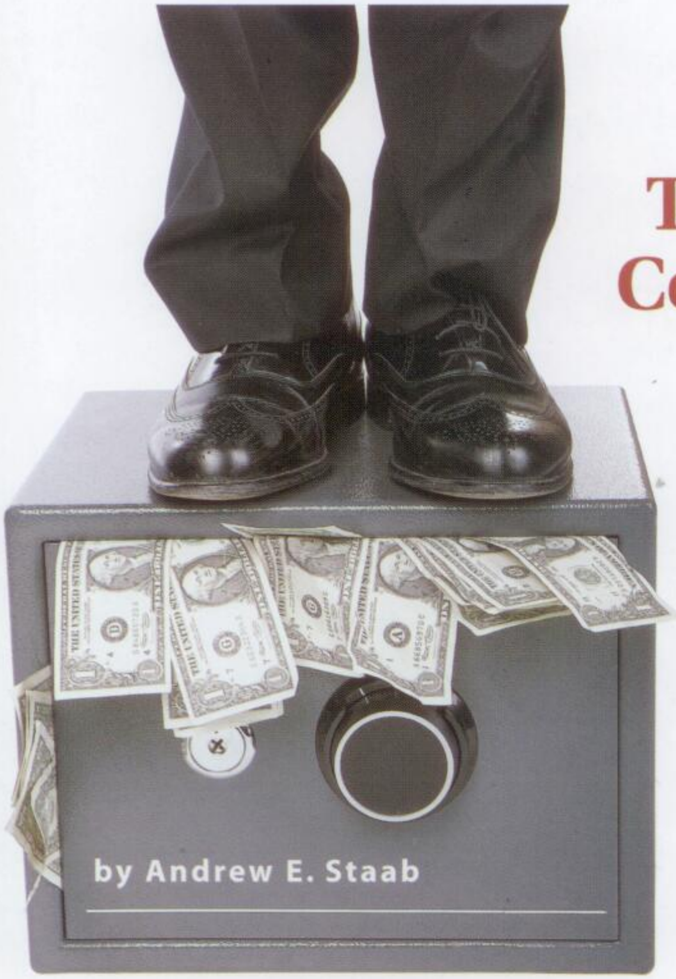
Benefits & Compensation DIGEST®
Vol. 45, No. 3 March 2008



The Year in Collections:

Have We Learned Anything New?

by Andrew E. Staab

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Although there are only three recognized defenses to Taft-Hartley trust fund collections lawsuits and delinquency matters, there were several cases in the past year that provided material worthy of discussion. Reflection on delinquency matters begs the question: Have we learned anything new? *Upon review of the pertinent cases, this question should be answered "yes." Without any earth-shattering landmark cases, Taft-Hartley collections in 2007 nevertheless provided sufficient material for fund trustees and fund service providers to continue to improve their collections efforts.*

Continued on page 13

Employee ownership has been around for decades—even centuries—and a wide variety of American companies have adopted it. This article looks at the possible effects of creating an employee stock ownership plan (ESOP), reasons to consider taking that path and guidelines on how an ESOP could be structured.

Embracing Change Through Employee Ownership

by J. Robert Beyster

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In the words of Peter Drucker, "The entrepreneur always searches for change, responds to it, and exploits it as an opportunity."

For many people in business, change is something dark and unknown—something to fear. These people much prefer the predictable and the comfortable—the status quo that can be relied on to be the same today as it was yesterday, and will be tomorrow. Of course, change is a normal part of business, just as it is of life. Every day brings fast-changing markets and new innovations in technology—faster, smaller and less expensive—shifting customer needs and wants. Organizations that fail to keep up with the changes are, unfortunately, doomed to be left behind by those companies that embrace change and use it to their advantage.

The key is for leaders, executives and business owners to create the right environment for change to flourish—an environment where employees seek out change and the opportunities it brings, rather than run away from or avoid it.

In the author's experience running a company, the most effective way to create such an environment is to activate employees' inner entrepreneur by giving them a meaningful stake in the businesses that they helped to build. In short, to make them owners.

The Case for Ownership

Unfortunately, many companies suffer from an extreme lack of employee engagement. Instead of consistently bringing the best of themselves to their jobs—and to their co-workers and customers—Many employees bring something significantly less. According to a recent survey of American companies by the Gallup Organization, only 29% of American workers—less than one-third—are engaged in their jobs; that is, they work with passion and feel a profound connection to their company. However, fully 54% of American workers are *not* engaged in their jobs. But that's not the end of it. The remaining 17% of American workers—almost one in five—are *actively* disengaged in their jobs; that is, they go out of their way to avoid doing their duties and accomplishing the goals their managers set with them.

There is no business today that can afford to carry this load—71% on average, nationwide—of disengaged workers. The competition is too fierce, and the stakes are too high.

While his company's good performance indicated that the employee ownership culture that had been built helped create an environment that fostered employee engagement, and where change flourished—and where the rewards that change brought with it were reaped—The author wanted to see hard data. On the company side of things, the consistent and upward climb in every important business metric—from revenues, to clients, to profitability—clearly indicated doing something right. The company's revenue and earnings grew at a compounded annual growth rate of 33% from the year of its founding—1969—through fiscal year 2006. A number of studies provided further support to the belief that sharing equity with employees makes good business sense.

Academic and government researchers have determined the impact of employee ownership on organizations, and they have found that companies in which employees think and act like owners create the potential for numerous synergies that can have a positive impact on organizational performance. The research further shows that employees clearly benefit by working in an environment that challenges them, values their opinions and ideas, and rewards them with a real ownership stake in the companies in which they work. The result is truly a win-win for all involved. Shareholders win because of the increased returns that an innovative and engaged workforce creates, and customers win because of the good work of a company of motivated and highly skilled employee-owners who help to solve their most critical and persistent problems.

Here is a brief summary of some of the research supporting the positive impact of employee ownership:

- In a series of studies conducted for the National Bureau for Economic Research (NBER) Shared Capitalism Project, researchers Joseph Blasi and Douglas Kruse of Rutgers University, and Richard Freeman of Harvard University, found that employee empowerment, good employment relations and various other work practices help determine whether employee ownership will succeed or not. Employees with the right corporate culture and different types of equity and profit sharing will more responsibly monitor fellow employees.
- A U.S. General Accounting Office study of 110 American firms found that employee-owned companies increased their productivity growth rate by an average of 52% per year.
- A study of 45 employee stock ownership plans (ESOPs) and 225 non-ESOP companies conducted by the National Center for Employee Ownership (NCEO) revealed that companies that combine employee ownership with a culture of participative management grow 8% to 11% faster than those without such plans.

In addition, the author's company researched employee attitudes toward their jobs. Findings include employees who purchased company stock had more favorable attitudes about their jobs, benefits, stock ownership and the work environment. The results of a 2003 study showed that 73% of employees who made direct purchases of company stock reported that ownership made them less willing to leave the company. Not only did the company experience the positive influence of employee ownership on revenues and profits, but stock ownership also improved employee job satisfaction and loyalty, increasing employee retention.

How Employee Ownership Impacts Organizations

So, what impact does employee ownership have on organizations? What kind of culture results, and what are the exact mechanisms at work? As mentioned above, an ownership culture brings out the entrepreneurial spirit of employees, leading to increased levels of engagement, lower turnover and improved employee performance. Employees are more engaged in their work, and because they are

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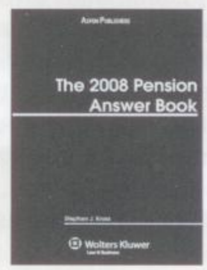

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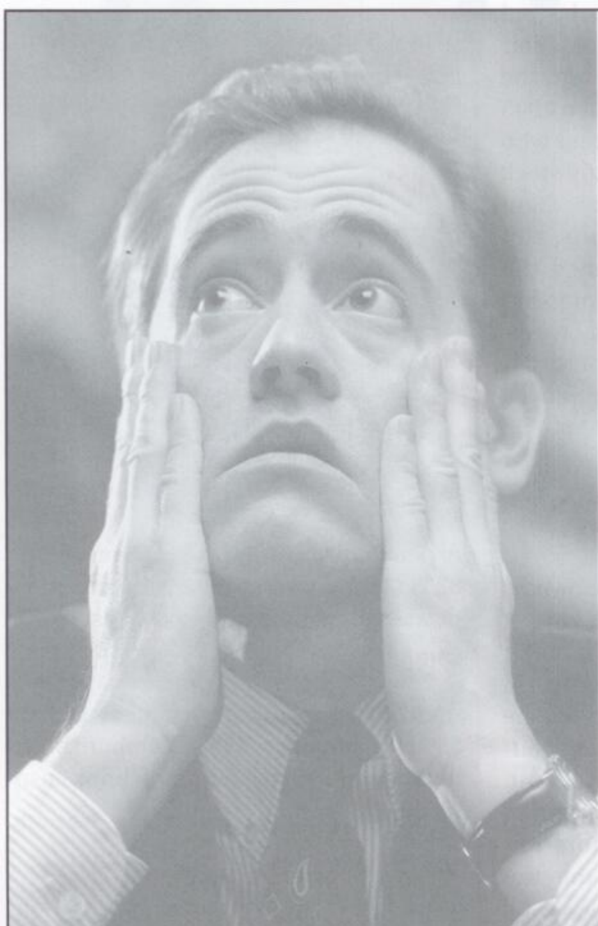
owners, they act like owners. They look for ways to cut costs; they avoid wasting their time and company resources; and they go out of the way to serve their customers. Four clear and compelling results from our entrepreneurial ownership culture are:

1. **Employee ownership allows a focus on long-term goals.** Employee ownership helps insulate companies from outside shareholders who have no direct ties to the company. When companies do not need to meet short-term performance goals dictated by pressures from outside shareholders, they can establish growth and profitability goals that are best suited to their own long-term objectives and the interests of employee-stockholders. These employee-stockholders are often much more patient than outside shareholders. Because the company's focus is taken off of providing immediate results, leaders can direct important resources where they are needed most: for investment in research and development, marketing, acquisitions and other uses that can enhance the long-term value of the company's stock, while creating a competitive advantage over similar, nonemployee-owned companies.
2. **Employee ownership helps attract and retain a superior workforce.** Companies that provide employees with the opportunity to become owners naturally focus on individual effort, initiative and responsibility. By being employee owned, companies have great latitude in designing stock incentive programs that are geared to motivating and engaging employees. Companies that create diversified equity compensation plans—utilizing a variety of different ownership vehicles—can positively impact a greater proportion of their employees than can the competition. Employee-owned companies are particularly effective at motivating employees to focus on corporate growth while creating a second source of net worth for the employees who—as owners—directly benefit from this growth.
3. **Employee ownership facilitates the alignment of key corporate constituencies.** In an employee-owned company, the roles and interests of owners, employees and managers are potentially more mutually supportive and overlapping than in traditional companies. Employee-owned companies are often better able to respond to their employee shareholders because the management-employee-shareholder matrix creates an interdependent and self-regulating environment that places a priority on open communications, employee participation in decision making and greater mutual accountability. This environment can serve the company's needs in many different ways, from controlling costs, to getting employee feedback on important corporate issues, to implementing quality improvement efforts that enhance the company's bottom line.
4. **Employee ownership promotes corporate flexibility and adaptability.** When a company institutes performance-based ownership incentives,



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employee-owners are naturally encouraged to maintain a customer-driven focus. By focusing on customer needs, employees are quick to adapt to fast-changing market conditions, transforming the company and its products and services in near-real-time response.

There are many different paths to ownership available to today's businesses. In the next section, some of these pathways will be explored with their potential benefits—and pitfalls.

Pathways to an Ownership Culture

There are many different methods for providing ownership opportunities to employees, including individual-based plans such as direct grants of stock, nonqualified stock purchase programs and stock option plans; and companywide plans such as qualified employee stock purchase programs (ESPPs) and employee stock ownership plans (ESOPs). Companies can also establish savings plans that can hold employer stock, such as the use of stock in 401(k) and other qualified retirement plans and nonqualified deferred compensation plans.

Each of these approaches offers many different advantages—and disadvantages—depending on the company that employs them and the specific business and legal environment in which they work. For example, direct grants of stock come in three main categories: vested stock grants (outright gifts of stock from a corporation to an employee); time-restricted stock grants (similar to vested stock grants, but with a vesting provision that requires the employee to forfeit all or part of the award within a specific period of time after the award, or if employment ends); and performance-restricted stock grants (similar to time-restricted grants, but based on performance instead of time).

Further, direct grants of stock offer a number of advantages, including the fact that they are easy to understand and simple to establish, and they put ownership directly in the hands of employees. But they also have disadvantages. These disadvantages include the fact that since employees don't have to spend any of their own money to receive these grants of stock, they may not truly appreciate the value of their ownership.

The intent of this article is not to present an exhaustive description of all the different employee ownership vehicles available to companies and their relative pros and cons—to do so would require an article much longer than this, and there are ample resources available elsewhere to explore their different nuances. However, it is important to follow seven basic principles in creating an effective program of employee ownership:

1. Make the stock an attractive financial investment.
2. Make stock holdings reflect an individual's contribution to the company.
3. Ensure that all employees have an opportunity to participate in ownership.
4. Use stock incentives to attract and retain competent and energetic staff.
5. Provide incentives for employees (not outsiders) to contribute equity capital to the company.
6. Tailor stock purchase plans to meet varied employee requirements.
7. Provide a way to sell stock and achieve liquidity for the employee-owner.

Of course, once opportunities are created for employees to become owners, employees—and the men and women who lead them—must be educated in how this new culture works and how to get the most out of it. Companies that show the greatest gains from instituting an employee-ownership culture undertake four very specific responsibilities:

1. **Educating employees to understand the company's system of employee ownership—what it is and how it works.** The program should be simple and easy for employees to understand, and it should be presented in sufficient depth and detail—as often as necessary to get the message across.
2. **Building a culture in which employee-owners are treated like the real shareholders that they are.** Employees must be treated as any other owner is treated by the company and its leaders—with decency and respect.
3. **Giving employees information about how the company works and the numbers by which its success is measured.** Giving employee-owners the tools they need—detailed knowledge and information—will help them make the best decisions and make a real and positive difference in the company's performance.
4. **Encouraging employees to participate in the workplace.** Convince employee-owners to become engaged in their company by encouraging them to make productive changes in the way that work gets done. Do not return to business as usual.

Many large, national businesses are employee-owned, including Publix Supermarkets, Hy-Vee, CH2M Hill, W.L. Gore Associates, Graybar Electric, Davey Tree Expert Company and Round Table Pizza. Today, more than 12,000 American companies have ESOPs, representing more than ten million employee-stockholders. Almost 40% of employees working for American corporations own stock in their own companies, and their numbers continue to grow. B&C

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J. Robert Beyster of La Jolla, California is the founder of Science Applications International Corporation (SAIC). Beyster served as CEO and chairman of the company for 35 years, and he promotes innovation and employee ownership through his Foundation for Enterprise Development and the Beyster Institute at the Rady School of Management, University of California San Diego. Beyster attended the University of Michigan, where he received a B.S.E. degree in engineering and physics, a master's degree in physics and a doctorate in physics.