Employee Ownership, Incentives and Environmental Sustainability

By Mike Taylor

Companies face increasing pressure – from customers, the government, and others – to conduct operations responsibly with respect to the environment and the long-term interests of all their stakeholders. It is by now common for large corporations to employ several sustainability officers, occasionally in high-ranking positions. A less frequently used tool – employee ownership – may prove a more powerful sustainability over the long term.

New Belgium Brewing, for example, uses an open-book policy to supplement its employee ownership program. Taken together, these tools have led to considerable waste reduction. According to a report by the SJF Institute, the company's ESOP committee solicited ideas to improve sustainability while also improving profits. A pair of New Belgium workers suggested removal of the dividers in the company's 12-packs. The initiative has saved the company $280,000 and eliminated 150 tons of paper from the company's production process.

For a firm to operate in a sustainable and responsible way, it needs to look beyond its own activities to its entire supply chain. New Belgium's Brewing Sustainability Specialist Katie Wallace told the SJF institute that New Belgium isn't shy about alerting suppliers to its sustainability focus. When companies are owned by employees, a firm's cultural values tend to take firmer root and influence relationships outside the company.

Similar results can be seen at Publix Supermarkets, by many measures America's largest employee-owned company. Publix has had a companywide green initiative since 2001. The company encourages employees to consider the environment not only while at work but also in their personal lives. It's difficult to imagine a non-employee-owned company succeeding with such a message. When shareholders tell employees what to do in their off-hours, it's an imposition. When the employees are owners, the message is different. Beyond educating employees and customers on energy-saving techniques, Publix is committed to continuous improvement in store-building techniques, reduction of fuel and water consumption, and use of alternative energy sources where it's feasible. Publix also has publicly committed to sustainability in its fish business, contracting with suppliers who fish sustainably and educating consumers about appropriate fish consumption habits. Because of the deep relationship between the company and its employees, Publix is able to implement sustainability measures in a way that isn't possible for many non-employee-owned companies.

Companies that do not use more overt and conventional employee-ownership techniques nevertheless recognize the power of employee incentives. Interface Carpet, a longtime leader in sustainability whose goal is to become a completely carbon-neutral firm, developed a specific incentive program to encourage sustainability. The company established an employee bonus program that incorporated suggestions for environmental sustainability. Fifteen percent of every employee bonus was based on contributions to sustainability. According to Interface, the company saved $50 million over three years under the program, and reduced its waste cost per unit of production by 32 percent. Because it's tied to waste reduction - a source of profitability - the cash bonus is in effect a form of equity compensation. By giving employees a stake in the company's operational and environmental performance, Interface has become a global leader in sustainability.

Incentive alignment, employee commitment, and a more powerful corporate culture are well-known benefits of employee ownership. Those benefits are not confined to accounting profits. Employee ownership and equity incentives also provide companies with a significant advantage in terms of environmental sustainability. As energy and other resources become more scarce over the long term, it's likely that the employee-ownership advantage will compound, both in terms of green performance and in terms of overall profitability.

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About the Author

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