Managing an Employee-Owned Company. It's Different. It's Better.

By Martin Staubus, Beyster Institute Staff

Don Way wouldn't want you to think it's all a bed of roses. After all, the fact that each employee at his company is a shareholder in the firm can make his responsibilities as CEO more complicated on several fronts. Still, he likes the way things have been going just fine.

Don's company, Thoits Insurance Service, Inc., is an insurance brokerage firm based in Mountain View, California, an old line bricks and mortar business amidst the sea of information technology companies that comprise Silicon Valley. Founded more than a hundred years ago by the Thoits family, the firm has been owned for the past 30 years by Don and the rest of the people who work there through an employee stock ownership plan, or ESOP - just one of several ways to put employer stock in employee hands. And Don, an ex-Marine, has been there since the ESOP was established.

Ask Don about what it's like to run a company where the employees are stockholders, and he can wax warm and fuzzy. "It's great working with a team of people who are genuinely committed to helping their company succeed. We don't have to worry about people abusing their expense accounts or anything like that. People regard the company as their own." But then it's easy to smile when your company has shown the kind of growth and performance that Thoits has. When the employees became owners in 1975, there were just five of them. Today they are a team of 80 who service over $150,000,000 in premiums.

Indeed, the impressive performance numbers associated with employee ownership by now represent familiar territory to those familiar with equity sharing. Studies have found that giving equity to the workforce - at least when supported by well-aligned management practices - can boost productivity by 17 percent, and growth by as much as 10 percent, *a year*. Exemplars of this performance advantage can be found among the leaders in a wide range of industries. In the airline business, Southwest Airlines is now worth more on the public market than all the other American-based airlines combined. It also happens that, unique among the major airlines, Southwest has granted stock options to its pilots, and every employee has a significant equity interest in the company. At Starbuck's Coffee, they not only lead an industry - they virtually invented it. Those baristas, who always seem just a cut above the typical retail employee slumping behind a cash register, are stock option holders, and get wealthier when the company grows. Microsoft, decades younger than IBM, has left that business icon of a previous generation in its silicon dust, having built a global business powerhouse by putting as much as a third of the company's equity in the hands of the people it depends on to do the work.

But when you talk to the CEOs who lead these high-performing enterprises, you soon learn that it is not just the financial results that have made them converts to the employee ownership idea. Indeed, much has been written about the way ownership interests can motivate ordinary employees by making their work more meaningful and interesting. Less discussed is the fact that managers, too, find their jobs more rewarding when the rest of the workforce is on board through ownership. You get that sense, for example, when you talk to George Ray, CEO of employee-owned LeFiell Manufacturing in southern California. "I enjoy it here," says George. "The gratifying part is how enthusiastic most of the employee stockholders are about ownership. That attitude makes it fun to be part of it."

One Beyster Institute consultant recently encountered a CEO whom the consultant had helped with the development of an employee ownership program a few years previously. The consultant asked whether the ownership program had produced positive results. Expecting the CEO to respond with quantitative data about the financial performance of the company, he was surprised by a different kind of answer. "The program's going great," said the CEO. "I get to go home at 5 o'clock now. It used to be that if the fellows encountered any problems at all, they would stop working, call me, and wait for me to find a solution. We run an evening shift, and many nights I'd have to return to the workplace from home because they had called me with a problem that had come up. Now that they are co-owners, it's all different. They actively participate in establishing our goals and plans, and they take initiative to resolve any issue that threatens to take us off our plan. And most of the time they handle the whole thing without calling me in. That's why I get to have dinner with my wife almost every night now."

Contrary to what some have suggested, you don't have to have a highly educated workforce to get this commitment and buy-in to the opportunity for ownership. Take Frederica "Freddie" Thode, President of HDOS Enterprises - better known by their original name, Hot Dog on a Stick. "Our average employee is 19 years old. Yet we've been very successful. The reason is simple: everyone has a stake in the outcome. We've been employee-owned since 1991. As a management team, we are in the business of educating employees to learn about the business, to understand what it means to have a stake in the company. Employees here know they have an impact on share value. They make a difference by not wasting hot dogs, not over-scheduling labor, being careful not to cause accidents, going the extra mile to make sure things are done right and customers go away happy. They know that all of these things affect their share value. And this dynamic makes it so much easier to run the company. We're able to trust our people to do their work responsibly. Yes, that saves dollars on supervision costs. But it's also a happier, and I think, healthier environment for all of us to work in, workers and managers alike."

Bill Loskutoff, President of Jackson's Hardware in San Rafael, California, echoes Freddie's comments. Bottom line, "managing an employee-owned company is a lot easier than managing a traditional company." Explains Bill, "I came from a very traditional, closely held family business. In a traditional environment, there is a perceived tension between workers and the management and ownership, whether there's really any basis for it or not. But in an employee-owned company, everyone has a clear stake in the fortunes of the company, and they understand how their efforts impact the company, so it's easy to motivate people. The reason for coming to work is a lot easier to get across to people. Ultimately, the whole team shares a desire to succeed."

There's one more thing. An unexpected but remarkably consistent theme emerges from the comments of employee-owned company CEOs as they talk about why they prefer to be leading an employee ownership company rather than a conventional one. It is the tremendous personal gratification they find in seeing ordinary individuals - workers who, at other companies, would be unlikely to prosper in any special way - begin to grow, develop and rise to a level of accomplishment that takes them well beyond their modest origins. Inspired by the opportunity to be an owner, and driven by their commitment to their colleagues, these individuals are the subject of stories by nearly every CEO we spoke with. Freddie Thode, for example, described how she finds deep satisfaction in seeing employees prosper. "I'm so excited when I see a young person of 16 years start with the company. Our Director of Human Resources started working at Hot Dog on a Stick when she was 14 years old. She went through college while continuing to work for Hot Dog on a Stick. Now she's the head of human resources for a company of over 1,000 employees. And she's wonderful in that role because she was there - she knows what it's like to work in the store."

Don Way, too, takes satisfaction in seeing how the people of Thoits Insurance are able to better their lives. "It's tremendously rewarding for a leader because you see people who wouldn't normally save much for retirement saving lots of money. These are people who, in other companies, would be spending every dollar they made."

Bill Loskutoff's version echoes Freddie's. "We have two brothers who started working here in low-end jobs. One was a janitor for us, and is now a managing supervisor. I've seen them become homeowners, and raise families. More than the material wealth that they're gaining, it's watching people grow into better positions and realize their potential that makes you happy. Our employees support each other and encourage each other to do things like getting their GED and taking classes to add to their knowledge. I don't see as much of that at traditional companies. Ownership brings a lot of the good out in people."

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