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Let's Deal with Sustainability Once and for All

by Anthony Mathews

If I could demonstrate to you that there was a form of business that consistently earned high marks for employee loyalty, relative pay and retirement and other benefits, and that this same group of companies was statistically disproportionate on the list of the "Best Places to Work," you'd probably be impressed.

The cynics might infer that these companies are spending too much on their employees and perhaps robbing their shareholders of a fair return on investment. So, if we then pointed out to the cynic that these same companies have been consistently demonstrated to grow faster than otherwise similar companies, to be significantly less likely to go out of business or become insolvent, to have much better performance than other companies on a whole host of measures, we might be able to convince the cynic to revisit the conclusion. But, it would undoubtedly be the deciding blow to this attitude if we then added the fact that in this form of business, the employees are the shareholders. The superior benefits and performance could be seen as a form of dividend – a return on investment not directly related to the investors' personal effort and a clear example of the two most beautiful words in the English Language: "passive income".

I don't think this is too great an exaggeration of the reality of the situation for employee ownership. Yet, the argument about sustainability continues in venues all across the country, and we have to ask, "why?"

It's not just failures of employee-owned companies (which are actually rare). Company failures are just business failures. Employee-owned companies are less likely to fail for a whole variety of reasons, but the fact that a particular outcome is less likely means that it is bound to happen sometimes, just not as often. So, failures of employee-owned companies are no more failures of employee ownership than failures of family businesses are failures of the concept of family, or failures of all those private equity investments prove that private equity is a failed way to fund business (although one can make a much better argument for the latter point).

No, the reason we continue to consider the employee ownership model as so fragile is clear:

The single most significant (one could argue the only) vulnerability of the employee-ownership model is the commitment of its own leadership.

Where we have seen companies decide consciously to move away from employee ownership, the reasons given are almost routine (repurchase liability, need for access to capital markets, etc.). These all sound like good reasons, but if you look below the surface, the reality is often quite the contrary – leadership has just lost confidence in the idea.

In one very telling example of this phenomenon, a well-known employee-owned company is moving away from being employee owned because it was felt by the board and management that supporting the employee ownership systems was restricting the company's ability to grow. The resulting decision to take the company public put an end to 40 years of continuous annual growth in the 20 percent range, caused the company to constrict for the first time in its history, and caused numerous other actions with significant damage to morale and culture in a futile effort to try to please the public markets. So far, the result is that the shareholders (many of whom are recently laid-off employees of the company) have now experienced their first extended period of very flat or negative performance.

Employee ownership didn't fail in that case. The confidence of management flagged, and the result is not good for anyone.

No, I think the reason we are still undecided about the sustainability of the employee-ownership model is simply that there are still significant numbers of business leaders (and, more importantly, business advisors) for whom the idea that allowing employees to earn capital as well as salary and benefits just sounds wrong. They'll cloak the argument in sound bites like, "employees are not in a position to take on the risk of ownership." Or, "people who get something for nothing don't appreciate it." But all of that fails to acknowledge the real reason for objecting to broad employee ownership - that limiting access to risk and capital is just a very convenient way to limit who gets rich.

In a world financial system that is designed to insure that a tiny percentage of the population will always control a massive percentage of the wealth, we just look really strange, and I'm very glad we do.

So, at least among ourselves, we should stop arguing over whether we are sustainable or not and keep a close eye on our leaders. Where the vision of earned capitalism as a business value is clear and shared throughout the company, the model can go on forever.

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