

The Importance of Ownership Culture in Difficult Times

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As we look back on the autumn of 2008, we see one of the most tumultuous times in the financial history of the United States. To put things in perspective, let's briefly review.

It began with a peak and then a decline in housing prices in 2005-2006. As a trickle and then a steady stream of financial institutions reported problems during 2006 and 2007, we saw a dramatic increase in oil and gasoline prices. Those increases spread to other commodities as the U.S. dollar sank against the world's currencies. As 2008 began we first saw Bear Stearns collapse, soon to be followed by well-known names like Indymac, Countrywide, Fannie Mae, Freddie Mac, Washington Mutual, Lehman Brothers, Merrill Lynch and Wachovia. Then in October, a steady decline in the stock market turned into a rout, with losses over the week of October 6-10 that were the worst in 75 years. As October progressed, business indicators turned sharply negative, indicating that a moderate-to-severe recession was coming — or already here.

Frightening stuff. And as persons responsible for an employee-owned company, how do we deal with these events? Employees are scared, and rightfully so. They see companies whose names are household words close shop overnight. Billions, even trillions in wealth wiped out by a day's decline in the markets. Their 401(k) accounts shrink by the day.

Should employee owners in an ESOP company be concerned about their company and their investment? Certainly. Only a fool or someone totally insulated

from the world would not be concerned about these unprecedented events. But concern is different from the full-blown hair-on-fire panic one sees in politicians and the news media.

We have been told for years by the ESOP critics that employee ownership is too "risky" for employees; that employees will inevitably lose out when the economy takes a downturn and the company falls on hard times. But look at what has happened in 2008. It hasn't been the small to medium sized businesses most ESOPs own that have taken the hit. Rather, it has been the "safe" investments — single family homes and large publicly held companies — that have been reeling.

Will ESOP companies feel the pinch from a slowing economy and tightened credit? Absolutely, and many already have. But ESOPs have a key advantage that should help see them through this crisis — a motivated and committed workforce. Now is the time for ESOP companies to use that advantage by stepping up efforts to reinforce and improve their ownership culture.

So what should an ESOP company do in these times to improve its ownership culture? How can this be a "teachable moment" that shows employees the benefits of their stake in what otherwise seems to be a shaky economy? It will take some honest and frank communication. Ignorance is the enemy.

Here are some topics that every ESOP company needs to discuss with its employees.

#1. How are we doing? Employees

hear the worst from politicians, the media and from conversations with friends and relatives. Many have no adult memories of an economic downturn and don't know what it means for them. The first order of business is an open and honest discussion of the company's current situation and prospects for the near term. Nobody can see the future, and employees don't expect that. But it's important to give employees a realistic assessment of the situation.

#2. How is our industry doing? In the same way, employees need to know how other companies in the same industry are doing, to the extent that knowledge is available. We may be the best-managed widget maker in the world, but if nobody is buying widgets we have a problem. Much of this information may already be available to employees in the news media. But company managers can often give insights that can't be found elsewhere.

#3. How are our customers and suppliers doing? Again, this information may be available in the news. But company managers will often be able to provide anecdotal evidence of new orders, cutbacks, layoffs (or even government bailouts!) that affect key customers and suppliers. Employees will hear much of this through the rumor mill anyway, so why not communicate it directly and get it out in the open? (This is assuming, of course, that the information can be communicated without violating any confidences with customers or suppliers.)

#4. What are we doing differently? Employees know if there are problems. They may already know the answers to questions #1-#3. What they really want to know is: "What are we doing about it?" One criticism of the government's response to events has been that it has been reactive rather than proactive. Whether accurate or not, this should provide a lesson to ESOP companies. We need to explain to employees how the company is responding to challenges — both the ones at the door now and the ones on the way.

#5 Don't panic. Employees are bombarded with bad news every day. What is needed — and often sorely lacking — is perspective. How does our situation compare to the last downturn? What did we do then to deal with it, and how well did that work? What is different this time? What will the new administration in Washington bring? Many employees have never seen anything like the current situation and naturally assume that no one else has either. The voice of experience can help them to see events in context and avoid panic.

#6. Advantages of employee ownership. A key question for many employees will be: “Does it still make sense to be an ESOP company?” They may see the results of economic turmoil and want no part of it. How can we show them the benefits of employee ownership in a vicious economic downturn? Of course, employees understand that ownership involves risk. But managing risk and using it to our advantage is a key part of owning a business. If there were such a thing as a risk-free economy, we wouldn't want to live there, because without risk, there are no rewards. Employees need to understand the ways in which the company's open structure, communication and motivation make it more likely to survive and ultimately prosper.

#7. Things will get better. ESOP companies should explain to employees not only the potential downside to the current economy, but also the opportunities. Those companies that make it through the bad times intact often find that they emerge stronger, leaner and more efficient. Competitors that engaged in shoddy business practices, foolish pricing or other bad decisions may be severely weakened or gone altogether. Economic activity may pick up quickly due to latent unmet demand. Companies that kept their commitments with employees, customers and suppliers will be better positioned to capitalize on those relationships when things turn up.

ESOP companies have a key asset on their balance sheet in this difficult economy — their employees. By communicating and reinforcing their ownership culture, ESOP companies can take advantage of this asset to survive and, ultimately, prosper.

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