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Leadership within an Employee Stock Ownership Plan (ESOP)

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Abstract
Through a communication lens, how can company executives maintain leadership within an employee-owned program?

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LEADERSHIP WITHIN AN EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

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Consider the comradery of a company, whose leaders encourage positive communication. In turn, consider a company whose leaders do not encourage positive communication. Which company sounds most appealing? A company that has established the highest quality of professionalism and compassion for its employees is irresistible. Executive leaders must set an example for all employees to mirror. Professional leadership is built on the foundation of communication, attitude, public speaking, ability to embrace change, and negotiation (Sharma & Gaur, 2014). How can this foundation of leadership continue to sustain in a company that is owned by the employees?

This thesis will address, from a business standpoint, how executives maintain leadership, in an employee stock ownership plan (ESOP), even though their employees have full ownership of the company. Leadership is maintained and even strengthened through displaying successful communication tactics, managing employee participation and creating an ownership culture, and designing an ideal ESOP program format and structure, which includes proper training for employees along with a revised vision and mission statement.

What is an ESOP?

An employee stock ownership plan (ESOP) is a retirement plan in which a company contributes to a stock plan, for the benefit of the company's employees (U.S. Department of Labor, 2015). Shares of stock vest over time before an employee is entitled to them. With an ESOP, one will never buy or hold the stock directly while still employed through the company. However, if an employee is terminated, retires, becomes disabled or dies, that participant will sell their shares of stock back to the company. In return, the employee will be paid for their shares. The U.S. Department of Labor's employee Benefits Security Administration oversees the ESOP retirement plan as a whole.

As of 2015, the National Center for Employee Ownership (NCEO) estimates there are approximately 7,000 employee stock ownership plans, which cover an estimated 13.5 million employees nationwide (NCEO, 2017). The start of the 21st century has displayed a decline in the number of plans, but an increase in the number of participants. Additionally, NCEO estimates 9 million employees participate in plans that provide stock options or other individual equity to most or all employees, within various companies. Aside from ESOP, 5 million employees participate in 401(k) plans that are primarily invested in employer stock. As many as 11 million employees buy shares in their employer through employee stock purchase plans.

ESOPs are most commonly used to provide a market for the shares of departing owners of successful closely held companies, to motivate and reward employees, or to take advantage of incentives to borrow money for acquiring new assets in pretax dollars (NCEO, 2017). In several cases, ESOPs are a contribution to the employee, not an employee purchase. ESOPs can be found in all kinds of company sizes. Some of the more notable majority companies are Publix Super Markets (160,000 employees), Lifetouch (25,000 employees), and Davey Tree Expert (7,800 employees) (NCEO, 2017).

An employee stock ownership plan is an employee benefit plan, similar in some ways to a profit sharing-plan. In an ESOP, a company sets up a trust fund, into which it contributes new shares of its own stock or cash to buy existing shares (Keeling, 2016a). Shares in the trust are allocated to individual employee accounts. Although there are some exceptions, generally all full-time ESOP employees, over 21, are eligible to participate in the plan. Allocations are made either on the basis of relative pay or some more equal formula. As employees accumulate seniority with the company, they acquire an increasing right to shares in their account, a process known as vesting. Employees must be 100% vested within three to six years, depending on whether vesting is all at once or gradual. Vesting all at once is known as cliff vesting (Keeling, 2016a).

When employees leave an ESOP, they receive their stock, which the company must buy back from them at its fair market value. The only circumstance when a company would not buy back the shares at a fair market value, is in the case of a public market for the shares. In private companies, employees must be able to vote their allocated shares on major issues. Major issues can include, but are not limited to closing or relocating. The company, however, can choose whether to pass through voting rights, such as a utilizing a board of directors, on other issues. In public companies, employees must be able to vote on all issues (NCEO, 2017).

Advantages for ESOPs vary, depending on the companies wishes. There are three main objectives for an ESOP program. The first advantages of an ESOP is that the company buys the shares of a departing owner. Owners of privately held companies can use an ESOP to create a ready market for their shares. Under this approach, the company can make tax-deductible cash contributions to the ESOP to buy out an owner's shares, or they can have the ESOP borrow money to buy the shares. Secondly, another use for an ESOP program is to borrow money at a lower after-tax cost. ESOPs are unique among benefit plans in the ability to borrow money. The ESOP borrows cash, which it uses to buy company shares or shares of existing owners. The company then makes tax-deductible contributions to the ESOP to repay the loan, meaning both principal and interest are deductible. Finally, the third use for an ESOP program can be to create an additional employee benefit (NCEO, 2017).

Leadership within an ESOP – Communication

It is simply impossible to become a great leader without being a great communicator (Myatt, 2012). Executives within an ESOP company must uphold and display strong communication skills. Important communication concepts for leaders of ESOP companies to consider include transparency and openness in decision-making, empathy and perspective taking, team-based leadership.

"Employee ownership is not entitlement" (Vanderslice, 2014, p.4). Employee entitlement is a rising issue for business owners. The notion that some employees seem to believe they are owed something just for showing up is a difficult reality for owners who put it all on the line every day. Does this entitlement dispute stem from the nature vs. nurture controversy? Owners might suspect employees who are raised to feel they are always winners, derive the mindset that they deserve to win. Resistance to feedback, an inclination to overestimate talents and accomplishments, a tendency to be demanding, and little sense of team loyalty describes entitlement entirely. ESOP companies develop fair policies to maintain separation between owners and employees, for the sake of preventing entitled situations.

While leaders consistently think through decisions with fairness in mind, employees may not see decisions as fair if they are not involved in them (Vanderslice, 2014). Fairness is expressed through engagement, explanation, and clarity of expectations. The consequence of avoiding tough situations is likely to be lowered morale, leaving employees disrespected. Fair treatment is an expectation of employee owners. It is important for leaders of ESOP companies to build engagement, explanation, and clarity of expectations into their overall decision-making process (Menke Group, 2011).

An additional aspect of practical leadership is displaying empathy. Emotional contagion empathy is the ability to feel 'feelings with' another, while empathetic concern empathy is the ability to share 'feelings for' another (Miller, 2012). Miller goes on to believe that these aspects of empathy influence the effectiveness of human communication, but could potentially hurt the effectiveness of interaction within the workplace. An empathic leadership style can make everyone feel like a team and increase productivity, morale and loyalty. Empathy is a powerful tool in the leadership belt of a well-liked and respected executive (Madera, Neal & Dawson, 2010). Empathy is an important trait to have at the forefront of a company due to the varying interests of employees. Perspective-taking is a simple way to put oneself in the shoes of another, through scenarios. Empathy increases prosocial (helping) behaviors. Leaders who recognize and understand emotions appear in the research as more competent and successful (Thiel, 2013).

An educational tool that is used to foster development of particular social and cognitive skills is known as perspective-taking (Vanderslice, 2014). Perspective-taking of various individual and group interests provides an effective basis for application to real-life scenarios, within an employee-owned company. The actual application of perspective-taking may involve an entirely different natural work setting or a departmental or company-wide meeting. This allows for companies to 'act out' or plan for potential dilemmas that may arise within their company, with regard to an employee stock ownership plan. Advocating for this solution toward effective communication, regarding preparedness and participant decision making, advocates for strong team work tendencies.

Perspective-taking is the ability to take someone else's viewpoint into account when thinking. A study was performed to find a correlation between brain activity interactions with others. These researchers examined whether perspective taking was a single ability or a task that involves multiple different systems. They examined this question in an interesting way by looking at individual differences in performance on different tasks that require perspective taking. If perspective taking is a single ability, then people well at one task involving this ability should be good at other tasks involving it as well (Markman, 2015).

Generally, team based leadership has geared participants toward agreement that fundamental techniques can lead to success. Working in teams can produce benefits such as the added creativity that comes from working with others from diverse backgrounds. However, teams can also embed problems such as free riding, idea stagnation, and a greatly increased likelihood of conflict with team members that may be potentially detrimental to team effectiveness. Team identity comes from the construct of organizational identity. Identity has two levels- individual, organizational. The individual identity answers the question, 'Who am I?' while organizational identity answers the question, 'Who are we as a whole?' Organizational identification is one's perception of belonging to an organization as an organizational member affectively, evaluative, and cognitively. Results of a 2010 study demonstrated that the effects of diversity on conflict can be partially offset by higher levels of trust. Trust is valued in all areas of business and industry locally and globally as trust proves to be a powerful factor in determining how the collaboration works out (Han & Harms, 2010). Further, trust was positively related to group performance, but that this relationship could be partially mediated by intragroup conflict.

In a study conducted to show the effects on interpersonal trust, participants displayed physical, behavioral, and emotional indicators of being engaged in the task and wanting to perform well. For example, participants frequently hunched over to perform better (physical), strategized to improve poor performance (behavioral), cooperated with, competed with, and/or cheated on their partners (behavioral), and showed anger and/or politely accosted each other when they felt that they were being taken advantage of by their partners (emotional). These indicators also reveal participants' concern about being vulnerable to their partners. Participant engagement and their concerns of vulnerability, provide evidence that this was a meaningful context for studying the role of trust in group performance (Goodman & Leyden, 1991).

Leadership within an ESOP – Employee Participation and Creating an Ownership Culture

ESOP companies have the resources to build upon a successful leadership foundation, while advancing participant satisfaction. A successful ESOP program contains powerful communication, positive attitudes from the participants, public speaking strength when addressing company matters, an ability to embrace change, and the ability to sensibly negotiate (Sharma & Gaur, 2010).

Participation in an ESOP requires of participants subtle and complex task building within a common culture, which underlines ownership thinking and ownership behavior. The question is, however, what parameters will be necessary to create a sufficient motivational basis for employees to care to participate effectively to begin with? An Inc. article suggests the best ways to motivate employees are to promote incentives, set small weekly goals, and be transparent (Pozin, 2015). Communication efforts do exist within company leadership to encourage and maintain enthusiasm. Participation, additionally, seeks employees to have a 'voice' in an ESOP plan. Pozin also suggests that radiating positivity, as a leader communicates that the work environment is desirable. If a company leader projects his/her 'voice' as a positive and encouraging participant, the ESOP employees will learn this concept by example. The framework for promoting participants' voices', stems from information, negotiation, and communication. Communicating a purpose with ESOP participants is motivational a well. In addition, by understanding their purpose and the purpose of the business, an employee is better able to understand how they fit into the big picture (Pozin, 2015).

Furthermore, employees cannot overstep their rights regarding concerns of the company. Even though employees share in stock ownership, this does not allow employees to aid or give input into administrative decisions regarding the company (Vanderslice, 2014). In a private ESOP company, employees are not allowed to give input on administrative decisions. The use of trustees, in a privately owned ESOP, serves the company by making fair administrative decisions. Contrary, a publically owned ESOP does allow for ESOP participants to vote on administrative matters. Sustainable company success depends on how well the company meets the needs of the employees. With regard to ESOP companies, participation in decision making (PDM), from the employees is only somewhat acceptable. Employees are offered minimal input into company decisions, as an ESOP participant, due to the role of executive board members. For the number of ESOP participants, the potential of conflicting views is heightened. Research on employee ownership (Conte & Svejnar, 1990), points to the fundamental relationship between participation in decision-making by employees and positive ESOP performance.

Employee participation is an important factor linking ESOPs and company performance. Employees who comprehend the importance of commitment to the company, will express that commitment in and out of the work atmosphere. This is an ownership style that is beneficial for leaders to encourage and support. Participation opportunities, for employees, could include possibilities such as committees or task forces on employee communications, specific problem solving groups, safety, health insurance cost containment, process improvement, quality, community engagement, charitable contributions, and capital investments (McHugh, Cutcher-Gershenfeld & Polzin, 1997).

An active intention of ESOP proponents is that stock ownership will lead to the creation of an "ownership culture" within the company. In an entrepreneurial paradise, managers and employees alike, would spontaneously and regularly "think of the company first" when faced with the multitude of potentially cost-saving decisions. As intentions and outcomes of a company vary, most can realize that the achievement of the widespread "ownership perspective", which is at the heart of the idea of an "ownership culture", is not guaranteed by the simple adoption of an ESOP (Vanderslice, 2014).

Ownership perspectives, at their core, are private individual interpretations. Ownership is a major topic, which can also lead to much controversy. Depending in part on how employee ownership is marketed to employees within any particular firm, employees who become part-owners will bring their private interpretations about the meaning of ownership. The achievement of that shared perspective, however, does not necessarily arrive automatically. Reality strikes when ownership is recognized, not about having rights alone, but how personnel utilize their voice to state opinions and witness how others respond accordingly (Vanderslice, 2014).

Leadership within an ESOP – Ideal ESOP Policies and Structure

As it pertains to an employee stock ownership plan, the president/CEO must establish a sound team of executives as well as a sound board of directors, to ensure that ESOP policies and procedures are maintained. Maintaining transparent ESOP policies will allow consistency. Such policies may include conflict resolution protocol, financial violation policies, etc. This process also builds the foundation that each and every situation, regarding the ESOP program, will result in a fair and standard protocol across the board. A standard protocol, from the executives, makes for less confrontation and more effective performance.

Leadership, within an ESOP company, is the opportunity to learn new skills and new responsibilities as the company grows into the ESOP. The president/CEO is essentially responsible for daily operations of the company and/or enterprise. In most cases, among his/her various roles, the executives also serves as chairman on the board of directors. Great accountability falls on the board as the elected representatives, along with the president/CEO, have the authority to hire, fire, and compensate all officers and employees. The reasons for this evolution is twofold. First, the board can establish levels of compensation and employment responsibilities for the entire enterprise by having the board set those of the president/CEO and allowing the president/CEO to set those of the rest of the company (Long, 2008). This assumes that the president/CEO, taking into account their level of compensation and responsibilities, will then set lower levels of compensation for everyone else. Second, a board can, if it wants, replace the entire management team by replacing the president/CEO with a successor, who can then hire and fire everyone else (Long, 2008). Providing training in leadership, management, strategic planning, as well as continued emphasis on committee usage, can enhance the long-term success of leadership within a company. A primary goal of ownership training presumably should be the development of a positive, shared perspective in the workplace.

Progressive employee policies and processes are two factors which link employee ownership with performance outcomes (Vanderslice, 2014). Progressive policies enhance employee interest and show compassion toward those individuals as well. Progressive policies concerning equality, diversity and sexual orientation are made based on social justice and/or business case arguments. Maintaining an inclusive approach toward the participants as well as throughout the transition, will lead to continued success. Additionally, it is important prepare for every situation with adequate documentation and timely communication between all parties (Keeling, 2016b).

ESOPs create the opportunity for company leaders to build more successful companies. The challenges, potentially faced, require ESOP leaders develop their leadership skills, which inevitably will enhance their company, when compared to non-employee stock owned companies. Seven major components that may help or hinder leadership within an ESOP contain, but are not limited to, communication, participation, fairness, development opportunities, authority, balancing interests, and progressive human resource policies (Vanderslice, 2014).

The benefits of an ESOP can be significant, both to the company and participants. Furthermore, the rules governing ESOPs are complex. For this reason, the cost of establishing and maintaining an ESOP is greater than other retirement plans. It is essential that the employer surround themselves with knowledgeable advisors who can navigate the company through the minefield of legal, accounting, and administrative issues peculiar to ESOPs. With that being said, ESOP companies can benefit, both long term and short term, from establishing a mission statement and a vision statement.

The success of any company depends on the sense of community, fostered among employees. An ESOP company is no exception. Participants are automatically collected into a community of their own. If a company desires their employees to be more engaged and invested in the success of the company, a clear mission and vision must be provided, in addition to core competences and a known values system.

A company's mission statement defines the reason why the company exists in the first place. A mission also lays out long-term direction for the company. A mission statement should address who the primary population is it that the company serves (Keeling, 2015). It should also identify the products and services provided. A mission statement must be somewhat easy to remember and clearly define the business' objective. This way, the employees, customers, and vendors have a transparent understanding of what is expected from all parties involved. Forbes, SONY, The Walt Disney Company, and amazon.com are popular brands with powerful mission statements (Bresciani, 2017).

A vision statement defines what the company would like to accomplish in the future (Keeling, 2015). By clearly communicating a vision, a set path is built. This aids employees toward having a better understanding of where the company is going and what the company would like to achieve, in addition to the mission statement. A well-defined vision paints a picture showing employees and clients where your company should be in the future (Keeling, 2016a). Leadership within various companies thrive on the foundation of business acumen, strategic perspective, market awareness, and the ability to develop and communicate a compelling vision (Vanderslice, 2014).

Once a company molds a mission and vision, the strategic advantages will begin to unravel. By integrating the mission and vision statements into the company, the company will begin to operate from the foundation of both statements. These statements clarify objectives the company wishes to uphold, what is expected out of employees, and validates the consumer's interest. When an ESOP program is established, the company's mission and vision statements will need to be revisited, to promote effective communication and clarify any concerns from the executives or the participants (Keeling, 2015). Furthermore, when employees are hired into an ESOP company, training should be provided to new employees to explain the ESOP program, as well as answer questions or concerns that may arise. Training should also be provided to ensure what behaviors are valued by the organization, by the ESOP participants, and which are not. Identifying, modifying, communicating, and sustaining a positive work environment will enhance the development of an ESOP company.

Conclusion

ESOP companies associate communication, ownership culture, and ideal ESOP policies as essential components toward concrete leadership. Thus, ESOP leaders strive to satisfy the needs of each employee participant. These components, however, best prepare executives for potent performance in the workplace. Shaping an operative mission statement and vision statement, internally and externally, direct company focus.

After analyzing the findings regarding leadership amongst ESOP companies and communication, there are areas of research that have yet to be explored. In the future, examining the participant perspective further, within an ESOP, would be practical. Additional relevant research could be conducted to compare ESOP employee satisfaction rates, over time, to companies who are non-ESOP; or examine ESOP employee satisfaction rates of a privately owned company, in comparison to a publicly owned company. Only then, will our society better understand the influences ESOP companies have one both the executives and the participants.

Differences in corporate culture can hinder acquisitions- no matter how good it may looks on paper. Further research is also needed to display ESOP acquisitions. Such acquisitions may arise during a merger, when creating an ESOP company, or when closing an ESOP company. Matching cultures of an ESOP company, to a non-ESOP company can be especially challenging.

Companies that choose to create an ESOP program, create a corporate culture that is quite inclusive, for ESOP participants. Maintaining an inclusive approach toward the ESOP participants will provide all with a valuable ‘voice’. Ultimately, this progressive mindset enhances employee participant and performance outcomes.

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