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Employee Ownership in a Tough Economy

By Martin Staubus (Republished with permission from the Beyster Institute)

Circuit City. Linens-n-Things. Frontier Airlines. Mrs. Fields Cookies. Lehman Brothers. These are just a few of the companies that have failed in recent months. They are the ones with the well-known names, but there are many more – smaller and more anonymous perhaps – that have also closed their doors.

The reasons for the failures can be seen on the front page of the newspapers every day. Banks aren't lending. Consumers aren't spending. The economy is in recession.

If you run a business, how are you going to counter those pressures? What's it going to take to be one of the survivors – to make it through this difficult period and hang on until sun comes out again and the economy regains its vigor? Certainly it will take focus, innovation and agility on the part of business leaders. "Business as usual" won't cut it. Creative thinking about new markets, new suppliers, new processes and new customers will be essential.

As a leader, you put this responsibility on yourself and give everything you've got. Yet that may not be enough. Getting through today's challenges will require not only your best efforts, but the best efforts of your whole team. From CEO to receptionist, everyone in your organization must understand that "business as usual" equals failure.

Everyone can – and must – make a difference. They have to come together as a team to fight this. Get focused. Find ways to get things done cheaper. Keep existing customers tickled pink. Locate new customers, even if it means talking to friends, family and strangers on the street. Figure out how to repackage what you do to appeal to a frugal marketplace. Even take a look at compensation and work out ways to stretch those dollars further to meet the company's cash flow constraints.

Can you ask your people to do those things – to fight with everything they've got – to save your business? The answer is no. Not if it's someone else's company. Working that hard has never been part of the standard employment deal. If it's only a paycheck that's at stake, employees simply aren't going to rise to that challenge.

But what if it's not just someone else's company? What if they see it as their company? Experience shows that employees will come together to fight through difficult times to save the company if they actually own a piece of the action and feel in their gut that they are co-owners. Now it's a situation in which they have much more at stake than just a paycheck.

If employee ownership is already part of your company, you're in a fortunate position, able to tap this remarkable well of team strength. If not, it's not too late. Think in terms of making a deal with your people. A deal that says, "I'm going to give you a stake in the future of this company. I'm bringing every one of you on as a co-owner of this business. If we can pull together and get our company through these tough times, you will have accomplished something to be proud of and changed your economic status in a very positive way. This is not a guarantee of anything. But it is an opportunity. The companies that survive this period will be in a tremendous position to prosper when economic growth returns. Let's be one of those companies."

Making It Happen

So ... what if you like this idea? You buy the notion that employees who own a stake in the business will fight harder for their company. Now, how do you implement that concept?

The Beyster Institute has been helping companies with that challenge for over 20 years. We can break it down for you. Think of it in terms of two steps. Here is a short description of each.

Step One. What sort of program or system should you adopt for delivering equity interests to employees? There are a variety of technical vehicles that are available for that function: stock options, ESOPs, stock purchase systems, restricted stock awards, synthetic equity and more. Creating a good program involves drawing from these many choices, and selecting one (or often, more) of these vehicles to form the framework of a system that is a good fit for your particular business. You will then need to address a range of practical and philosophical questions to develop a rationale for determining how many shares to award, when to award them and on what grounds. Ultimately, you end up with a living, ongoing system that, over time, puts an appropriate amount of ownership into the hands of each participating employee.

Step Two. How do we transform employee attitudes and behaviors so that our people start to think and act like owners of the business? You need to begin with the recognition that simply issuing some stock to employees will not by itself produce an instant transformation in their dedication and productivity. Yet there are proven practices that will reliably achieve those results. First and foremost, it takes a commitment to provide an educational process for the participants. A certain level of understanding – about the new system of employee ownership and, even more importantly, about the company itself – is an essential requirement for success. Only when participants understand how the company functions from both an operational and financial perspective will they be in a position to develop innovative ideas on how to operate more efficiently and successfully.



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