March 2021

Driving Value with Innovation: A Critical Role for the CEO of an ESOP Company

By Ken Serwinski

A company can have many reasons for considering an employee stock ownership plan ("ESOP") as an ownership transition alternative. One major reason for embracing this strategy is culture. The assumption is usually that human capital drives financial success. If you can help human capital understand what drives value, long-term success is practically guaranteed. Homegrown innovation should be simple, right?

In my over thirty years of advising ESOP companies, the biggest missed opportunity I have seen is that companies often fail to connect the dots between the employee-owners and driving value. I have heard many comments over the years that cause me to shake my head, and these comments almost always revolve around time and money. Some include "Total employee education and involvement takes too much time," "It's hard to get our remote offices involved," "If we're teaching them these concepts, they're not doing their jobs" and of course, "The professionals that do this kind of education spoke to us when we first closed our deal. They put together a plan for ongoing communication, but I thought it was too expensive." So, little is accomplished, and companies continue as they have before, without enhancing employee engagement or potentially improving profitability.

The board of directors of the company is aware of the critical value drivers of a company. That same board charges the CEO with executing a strategic plan which should include more employee engagement and strong, sustainable profits. Most CEOs are confident in their operating models to deliver results in the short term. Driving value over time requires a long-term strategy of education to connect your human capital to company performance.

Now at this point, historically, I would have agreed with many advisors and suggested a plan of employee engagement that might include an ESOP communications committee, ESOP education, more frequent employee communication that covers current financial performance or even the concept of open-book management. Unfortunately, these efforts, at least initially, are often met with blank stares from employee-owners. Sometimes, those blank stares continue in future meetings.

- Maybe we need to think about a different strategy.
- Maybe the challenge starts with the employee-owner.
- Maybe the employee-owner is uncomfortable with understanding business concepts.
- Maybe the employee-owner is uncomfortable with understanding personal finance concepts.

Why should the CEO of an ESOP company care about personal financial education? Because your employees are under a significant amount of personal financial stress which causes reductions in productivity, and that type of distraction is hardly going to lend itself to driving value.

The accounting and consulting firm PwC conducts an Annual Employee Financial Wellness Survey.[1] In their 2020 Survey, 58.0% of employees admit that they are stressed about their finances, and most only seek financial guidance when they are at key decision points in life (buying a house, saving or investing decisions) or when they are already in crisis. Further, 50.0% of stressed employees say finances have been a distraction at work. Let's think about that - almost 30.0% of your employees are distracted by their personal finance issues.

So, if an employee doesn't know how to balance a checkbook, construct a family balance sheet, put together a budget or deal with credit card debt, how can we expect them to understand business concepts such as value drivers? We can't. Maybe we need to start with personal finance education.

If you embark on a personal finance education program - especially one that is measured periodically for effectiveness - you will start to see a few light bulbs go off. For instance, if an employee-owner can put together a household budget and balance a checkbook, it would stand to reason that they would be more apt to understand a company budget and cash flow. In addition, if an employee-owner can put together a family balance sheet to include assets, liabilities and net worth, they could make better analogies to the company's balance sheet.

More importantly, you are empowering your employees through knowledge. This knowledge can help them better understand the value and importance of the contributions they can make, which in turn, drives value. Driving value increases share price and solidifies a valuable retirement asset. This can, perhaps, reduce some personal financial stress and lead to a more loyal and engaged employee.

1. PwC's 9th Annual Employee Financial Wellness Survey, PwC US, 2020

For more information, contact:

Ken Serwinski, Chairman

Prairie Capital Advisors

kserwinski@prairiecap.com

630.413.5588