



CASE STUDIES

Engaged Company Profiles

Leading Through Employees

Advanced Circuits

The Story | Corey Rosen, Executive Director of National Center for Employee Ownership, speaking at an SJF Institute/Winning Workplaces conference on employee engagement in 2007, offered a key lesson: “Employee involvement doesn’t happen because you allow it, but because you structure it.” Advanced Circuits, a 400-employee manufacturer of custom printed circuit boards based in Aurora, CO, provides a good example of how that rule works in practice.

Engagement Strategies | Advanced Circuits uses quick, daily standing huddles by department to discuss good news, hurdles, and goals for the day. Additional 10-15 minute weekly meetings and hour long, monthly company-wide check-ins keep employees engaged.

Company metrics such as on-time delivery rates, quality rates, shipping, and scrap volumes are discussed “every day, every week, every month,” according to President and CEO John Yacoub. These open book management strategies have resulted in Advanced Circuits holding the best-in-industry standard for on-time delivery and turnaround, says Yacoub.

To keep employees motivated, firm performance and profitability targets are tied directly to incentives, including profit sharing and tri-annual bonuses. “Everyone shares when the company hits a goal,” says Yacoub. Employees meet one-on-one with supervisors three times per year to discuss goals and expectations, establishing a basis for a performance bonus that could reach up to 10% of an employee’s salary or monthly hourly rate.

Likewise, the profit sharing program, at an average of 5% annual pay, is calibrated to a very clear set of goals. “Employees know where they stand at any given point,” says Yacoub. And, he stresses, employees are only judged by metrics they can control and are constantly informed about, such as booking, invoicing, customer complaints and shipping.

The company also has a tradition of establishing stretch goals that, when reached, have resulted

in several company-wide, all expense paid trips to Las Vegas. A buyout of the company's founding owner by a private equity firm made equity sharing with employees hard to structure. However, employees are made aware of the option to purchase stock in the publicly traded parent company, Compass Diversified Holdings.

Business Results | Yacoub says he “absolutely” sees a correlation between the company's performance and its incentives and initiatives. “The profit sharing program costs close to \$1 million per year,” he told us. “I would not do it if I didn't see a connection to business performance.” He adds that the company's current status as the most profitable in its industry is due to the hard work of its fully engaged employees.

The turnover rate is low – Yacoub estimates less than 6%. Not considering the 130 employees that were added after a recent acquisition, employee tenure is between 8-10 years. At least 50 employees (about a fifth) have been with the company for more than 10 years. Prospective employees often comment at job interviews that everyone is smiling.

And the company's high involvement hiring involves a personal interview with the CEO for any employee who will have contact with customers.

Advanced Circuit's strong employee culture



AT A GLANCE ADVANCED CIRCUITS

Business:

Quick turn circuit board manufacturing

Location:

Aurora, CO

Revenues:

\$52 million in 2009

Employees:

400

Engagement:

- open book management
- high involvement hiring
- teams and frequent huddles
- company-wide meetings and celebrations
- generous benefits
- profit sharing and tri-annual bonuses

Business result:

- low employee turnover
- high customer satisfaction and retention
- no layoffs during the recession

has only strengthened its relationship with its customers. For nearly ten years, the company sent out a survey with each order. Questions or complaints are followed up with personal phone calls from the company, not a third party. Afterwards, both the customer's concern and the company's reply are posted for all employees to see.

The high involvement culture also helped the company weather the last recession. In 2009, the company was faced with the possibility of having to let go of 30-40 employees. Instead, "we came together as a family and everyone took a bit of pain," Yacoub recalls. The jobs were spared because all employees, including management, took 10% pay cuts for six months. The company weathered the recession, and salaries were reinstated.

LESSONS LEARNED:

- **When developing employee engagement programs, structure them carefully and then continually monitor and change them as needed for success.**
 - **Assess and reward employees' performance only by metrics they can control.**
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Sustainable Growth and a Strong Culture

ATA Engineering

The Story | Advanced Test and Analysis, organized as an Employee Stock Ownership Plan (ESOP) company with 91 employees, has a number of innovative employee engagement strategies which General Manager Jeff Young believes have kept its mechanical engineering services at the head of the pack.

Formerly a division of Structural Dynamics Research, the firm had a friendly spin off from its parent in 2000. Twenty eight employees, including senior technical staff and clerical employees, bought out the division's stake and created ATA Engineering.

Engagement Strategies | ATA has very high recruitment standards; often, up to 12 current employees will interview with a new candidate. Once a new employee is on board, "you have respect for these great people you've attracted and want to get them involved in decision making," he says. The National Center for Employee Ownership, in a review of the firm, said that "more than any particular management practice this high-involvement hiring process is the key element in ATA's ownership culture," as it creates a very high level of trust.

The firm practices open book management to ensure that all employees understand what the numbers mean. Big decisions are made on a consensus basis. Although it might be faster to use a "benevolent dictator" decision making process, Young said, it would not result in the same broad level of buy-in. In short, while getting people involved in decision making takes longer, implementation is faster.

The consensus structure has stayed in place even as the company has grown by utilizing committees and teams. Internet tools also make it easier to gather feedback from all employees. The firm considers it even more important, now that it is larger and has multiple locations, to get feedback from everyone.

Shared Ownership | From the beginning, ATA shared ownership broadly via stock options. (In fact, the original 28-member team had successfully lobbied for broader ownership when it was still part of the parent company.) In 2005, with the help of the Beyster Institute, ATA became an ESOP.

The firm hires many new engineers right out of college – employees that tend not to think about their retirement plans immediately. So ATA makes ownership more tangible to the younger staff by continuing to issue stock options. Employees are fully vested after four years and options retire after ten. Administrative staff (including the receptionist, technical editor, and HR manager) and engineers all receive options and participate in the ESOP.

Stock options and bonuses are distributed in proportion to employee’s salaries (with performance reviews taken into account). The structure reflects Young’s belief that very vocal employees should not receive more than equally strong, but quieter, performers. There is no separate bonus plan for senior leaders.

Business Results | The firm has been profitable every year but strives for 15% annual growth, which is considered modest. At the pace it sets for itself the firm can meet goals sustainably. “If you grow too fast, you can risk your culture and values,” Young says. Due to their numerous delighted customers,



AT A GLANCE ATA ENGINEERING

Business:

Engineering consulting

Location:

San Diego, CA

Revenues:

\$18 million in 2009

Employees:

91

Ownership:

- ESOP
- broad based stock options

Engagement:

- open book management
- consensus decision making
- high-involvement hiring
- bonuses

Business result:

- low employee turnover
- high customer satisfaction and retention

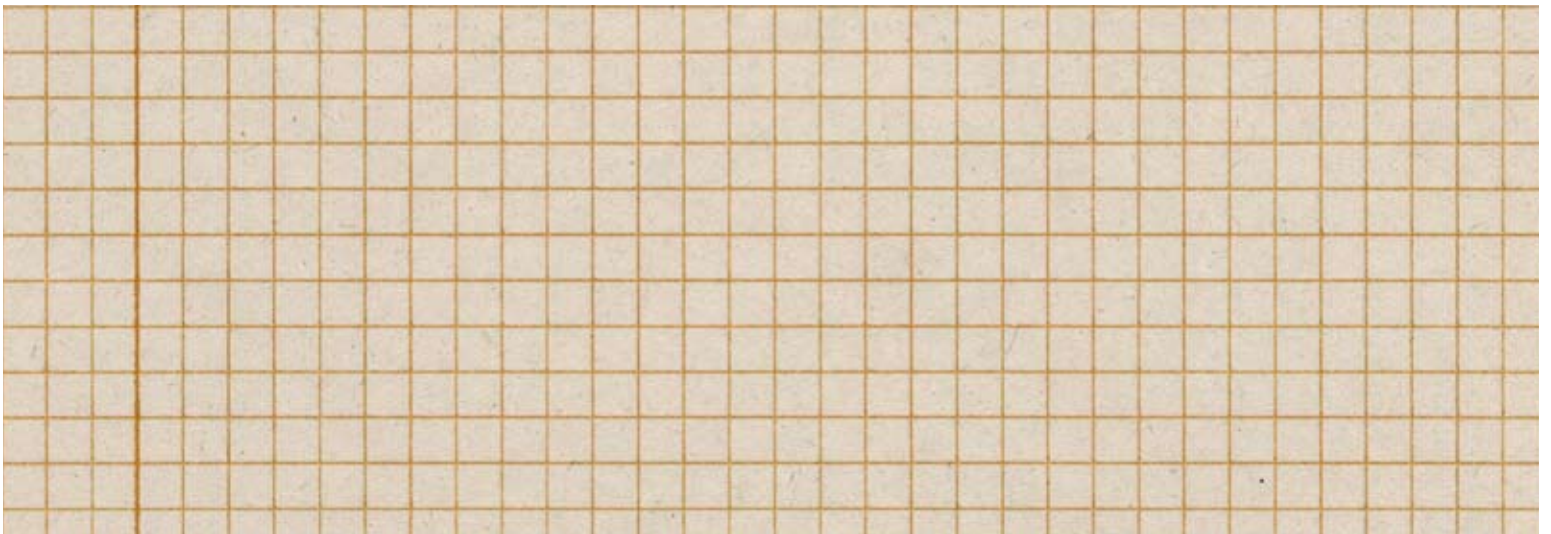
the firm has many repeat client companies in the aerospace, biomedical, automotive, amusement park, and consumer product industries.

One strong benefit to employee engagement is happier customers. Young said that surveys done after each of the company's projects have been strong. Customer delight (ATA's term) is the standard – customer satisfaction is not good enough.

All engineers are paid on an engineering scale based on educational degrees, years of experience, and whether the employee takes on a supervisory role – but these criteria are just a guideline. The philosophy is to pay people fairly and competitively. Employee turnover is extremely low, about 1% -2% per year. Young says the employees “like what they do and they like the ownership culture.”

LESSONS LEARNED:

- **Carefully manage growth to ensure company culture and values persist.**
 - **High recruitment standards and high involvement hiring lead to low employee turnover.**
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The mission is “baked in”

Better World Books

The Story | Better World Books had its genesis when a group of college friends organized a book drive to help improve literacy in their local community. This led to a potential business opportunity, but with a twist: source used books from college campuses as well as from libraries and other institutions that can no longer use them, sell them on the internet, and direct some profits to fund global literacy programs.

Today the company sells used books on major sites like Amazon.com and E-bay’s half.com as well as its own website. Just six years old, the company earned \$31 million in revenue in 2009 and has prevented over 33 million books from entering landfills to date. As part of its expansive social mission, Better World Books is a certified B-Corp, a movement to expand the legal structure of corporations to include employee, community and environmental interests when making business decisions.

Engagement Strategies | Better World Books’ 300 mostly full-time employees work at its Indiana warehouse where its shipping and receiving operation is based. The company offers a generous benefits package to 100% of its full time workers, and supports its part time employees toward having “a path to full time employment and benefits,” says CEO David Murphy. He notes that as healthcare premiums have gone up, the company has worked to assume a significant amount of the financial burden to help lessen the impact of higher contribution costs for employees.

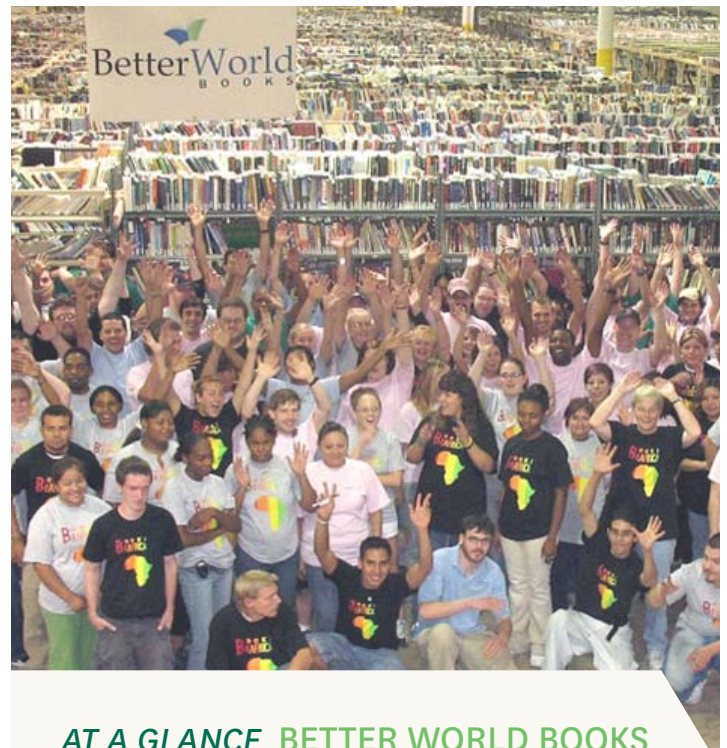
The company has developed an extensive scorecard by which it tracks its social, environmental and financial metrics for continuous improvement, as well as surveying employees annually to get their input.

The recent economic downturn provided the company with a test of its core values. The South Bend / Mishawaka / Elkhart, Indiana area was hard hit by the recession, with deep losses in its manufacturing base. The company met this challenge by stretching to avoid layoffs.

When reducing the workforce by 42 was all but inevitable, the CEO and Co-Founders took a 20% pay cut, VPs took 15%, managers 10%, and floor employees took 5% (without a loss in benefits). Management promised employees that if they hit their target by the end of the year everyone would get a bonus. They delivered.

The company was profitable by the second half of the year and all salaries were reinstated – except the executives’. Murphy says the move to retain the executives’ pay cuts for a year instead of six months prompted questions from employees who thought everyone should benefit from the company’s return to growth. Murphy thinks that the employees’ concern shows that the management team did the right thing by “making the cuts, sacrificing, and communicating,” he said. Openness and transparency with the financials during the downturn was also key in keeping the team intact.

Shared Ownership | Better World Books shares equity with all employees through its incentive stock option program. Each employee receives an initial grant of stock options after one year, followed by subsequent awards based on performance. While Murphy notes some challenges in educating employees about the benefits and risks of sharing equity, small group “lunch and learns” on a range of financial literacy topics have contributed to a



AT A GLANCE BETTER WORLD BOOKS

Business:

Online bookseller of new and used books

Locations:

Alpharetta, GA; Goshen and Mishawaka, IN; Edinburgh, Scotland

Revenues:

\$45 million

Employees:

300

Ownership:

- road based stock options for both employees and nonprofit partners
- bonuses for employees

Engagement:

- comprehensive benefits
- detailed quarterly updates provided to all employees
- engagement surveys

Business result:

- low employee turnover
- increased profitability during economic downturn

more financially savvy workforce.

The company has received outside investment from Good Capital and several angel investors. If there is a liquidity event, the partners expect significant rewards for investors, management, and all employees who hold options. In addition, however, the book seller will have another, more unusual, beneficiary in the deal – its nonprofit literacy partners.

Better World Books had always planned to share gains with these partners – Books for Africa, Room to Read and others – which help the firm achieve its mission of eradicating illiteracy around the globe. When Good Capital invested, they helped the company think through adding the nonprofits, not just as beneficiaries of charitable contributions, but as equity holders.

The CEO and Co-Founders initially created a 5% equity stake with a regular vesting schedule for these nonprofits, based on the promise that if Better World Books could finance their work, the partners would help even more people learn to read. To keep the incentive structure in place, the nonprofits gain a greater equity stake through measureable improvements in their literacy targets. As Good Capital principal Kevin Jones puts it, the social mission is now “baked in.”

Business Results | Although Murphy says that he cannot empirically tie the firm’s employee

engagement practices to better financial results, he points to the company’s turn from unprofitable to profitable during difficult economic conditions as evidence. “Over the past year, our business has done better than ever during a time when we easily could have had losses and high employee attrition,” he said. “Instead, we held together and the fact of shared cuts – later reinstated – kept everyone’s spirits up.”

LESSONS LEARNED:

- **Shared sacrifices and clear communication about the firm’s financial situation during an economic downturn can help maintain morale and may even improve business performance.**
 - **There can be creative solutions for engaging both employees and other stakeholders in company**
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The Numbers Game

CleanScapes

The Story | At CleanScapes, a Seattle-based waste reduction, diversion and collection service company, it's all about the numbers. Inc. magazine recently named CleanScapes one of the top 5,000 quickest growing companies in the U.S., and the fourth fastest growing environmental firm. The company wants to break into the top 500 next year.

Engagement Strategies | Internally, the company keeps close tabs on important metrics known as “CleanStats,” which are shared with the whole company in a weekly meeting and include operational efficiencies, errors, kudos, and the like. The metrics have been instrumental in helping the firm meet and beat its internal financial performance goals, says Human Resources Manager Bonnie Abbott.

Daily morning huddles by department and dedicated efforts, from top management to entry level employees, have also helped cut missed pickups, accidents and route hours (which drive most of the firm's direct costs including labor, fuel use, and maintenance expenses) down to acceptable and budgeted levels.

While the numbers game helps the firm perform financially, the triple bottom line organization has other broader commitments, too. CleanScapes spearheaded pioneering environmental and civic strategies to clean up and strengthen urban neighborhoods and found innovative ways to reduce the environmental footprint of their clients while saving them money.

The company has partnered with a transitional jobs program to train people “without great job opportunities to come work for our firm,” says CEO Chris Martin. Individuals who might be overlooked at other entry level jobs have found well paying opportunities in the company's construction recycling division and neighborhood beautification team (including graffiti removal and street washing).

Growing steadily since its founding in 1997, the firm now employs 260 individuals, many of whom are entry level and benefit from the opportunity to develop a successful career path. “We have one manager that started with us as an \$8.00 per hour cleaning staff member five years ago,” explains Martin. “He now runs operations for our San Francisco office and is a tremendous asset to the company.”

If numbers are a key driver, so is the company’s outstanding culture. Strategies that preserve and enhance the culture include safety and inspirational message displays that boast kudos from customers and the monthly employee peer-to-peer recognition winners. All employees go by first name, promotion from within is common and checks have been passed out personally as an opportunity to thank employees (although recently more employees have signed up for direct deposit – an important step in improving personal financial management skills). The company also contributes 75% to employees’ health and dental insurance and offers an Employee Assistance Program (EAP). In addition, CleanScapes will soon begin awarding bonuses based on achieving metrics, according to Abbott.

CleanScapes is devoted to cleanliness and cultivating pride in personal and equipment appearance – part of what Abbott describes as their commitment to “becoming the best in the business and about more than just picking up



AT A GLANCE CLEANSCAPES

Business:

Waste reduction, diversion and collection services

Location:

Seattle, Washington

Revenues:

\$50 million in 2009

Employees:

263

Engagement:

- open book management
- generous benefits
- promotion from within
- clearly communicated success metrics
- teams and huddles
- company-wide meetings and celebrations

Business result:

- low employee turnover
- high customer satisfaction and retention

the trash.” She described a recent incident in which a CleanScapes driver helped a customer gather up yard waste so he wouldn’t miss the pickup. “He sent us a letter saying how blown away he was that our employees weren’t put out that he wasn’t prepared,” she said.

There is friendly competition between teams to reduce trash can misses, errors, injuries and other targets. Abbott says the goals frequently rotate, with teams consistently raising the bar for their peers. Employees’ good performance is rewarded with a punch card that, when filled, earns them a stainless steel water bottle with the company logo.

Clear, consistent and open communication is a company hallmark. Drivers join management once a month for lunch to offer feedback and suggestions for improving operations. This communication has paid off in efficiency gains. For example, two employees devised a way to improve truck performance that doubled productivity and cut trip mileage in half. Less wear and tear on city streets and a far lighter carbon footprint proved to be such attractive benefits from the innovation that the company similarly outfitted all of their trucks.

“In all companies, employees are an asset – but particularly in ours,” says Martin. “We’ve got over 100 trucks on the road every day and it’s very important that those trucks are driven by people with high morale and a high respect for safety and the community.”

Business Results | CleanScapes’ laser focus on the numbers has earned the company bonuses from the city of Seattle, a major customer. CFO Chris Husband says the company’s rapid growth and high customer satisfaction are largely due to its team of engaged employees. “The folks in the field are the key,” he says. “Their hard work and positive attitude has enabled our success to date and will determine our success in the future.”

LESSONS LEARNED:

- **Clearly communicated success metrics combined with team rallies, strong benefits, and implementation of employee ideas for process improvement can lead to fast growth, low accident rates, and meaningful environmental and social impacts.**
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Sweet Treats and Engaged Employees

Dancing Deer Bakery

The Story | The recession that began in 2008 was hard for many firms, especially those dealing in high-end consumer products, and all-natural baked goods purveyor Dancing Deer Bakery was no exception. The company sells directly to consumers via mail-order and the Internet and wholesale to high-end grocers. But founder and former CEO Trish Karter says there is one thing that she can point to that made the difference in the company's ability to weather the downturn: employee engagement.

Engagement Strategies | Dancing Deer Bakery has been lauded as a Boston Business Journal Innovator of the Year, a Forbes "Best Boss" company, and – for four different years before it moved to its current location – was ranked on the Inner City 100 list. An aspect of the business that is consistently recognized in these awards is its triple bottom line approach and fierce commitment to the bedrock principles of the company.

How does the bakery keep employees engaged? Karter ticks off a list: broad based stock options, open-book management and "communication, communication, communication." Karter says the corporate culture is one of "commonality and community" and includes a policy of promotion from within as well as being very open to ideas from any and all employees, which often has resulted in efficiency improvements.

Karter has taken some risks with her hiring practices, including adding former convicts to the payroll. But she says that because she and the supervisory team really get to know employees personally, they have moved up the ladder. One ex-convict is now a high performing supervisor. Many current supervisors once worked on the line. Karter says accommodating employees' after-hours pursuits, such as night school, engenders loyalty and lower employee turnover.

Other benefits available to the mostly entry-level employees include health and disability insurance – including insurance for part time workers (24 hours per week or more) – education reimbursements,

and matching IRA plans. Many of the company's 75 employees live in neighborhoods accessible by bus to the bakery in Hyde Park, MA.

The Human Resources director is part of the executive management team, and Karter says that HR has always been core to the operation of the business. The company practices open book management, which is both challenging when people see the numbers during a downturn but also key to all employees understanding the critical importance of meeting and beating metrics.

The company's open server allows all financial documents to be shared, with the exception of the CFO's budget spreadsheets, and management and supervisors discuss the numbers in depth at weekly meetings. These meetings are an open forum where employees are encouraged to ask questions.

One of Dancing Deer's well known charitable initiatives is the Sweet Home project, in which 35% of the revenues from certain products are donated to local initiatives to help homeless families establish stable lives and move into homes of their own.

Karter says the company's initiatives – from its charitable donations to equity-sharing activities – have been possible because employees understand the company's financial position. "People know where we are on everything," she says.



AT A GLANCE DANCING DEER BAKERY

Business: All natural baked goods

Location: Hyde Park, MA

Employees: 75

Revenues: N/A

Ownership: Broad based stock options

Engagement:

- open book management
- promotion from within
- strong communication at all levels
- HR director part of executive management team
- full time benefits at 24 hours/week

Business result:

- low employee turnover
- strong customer retention
- better results during economic downturn

Shared Ownership | The company started offering broad based stock options as early as 1996. “We see options as not only a financial reward for good work but also a tool to help people understand and manage financial assets long term,” Karter told Business Week in 2007. This is particularly significant for those entry level employees who do not yet have checking or savings accounts. “And we believe that everyone having a stake in the outcome truly makes us a better company,” she says.

About 13-15% of the company’s options are owned by employees other than management. Options are usually awarded based on a formula that is tied to sales rather than an external valuation of the company unless there is a market transaction. If there is growth, employees can cash in their options upon their departure. In some instances when capital has been raised, Karter and other shareholders took a dilution in order to share more with employees. In the event of a company sale or other liquidity event, employees will benefit alongside management and investors.

Business Results | Karter says that Dancing Deer’s all-natural products, community involvement, and fully engaged employees are core to the company’s branding and lead to greater customer loyalty and sales. In addition, practices such as open book management helped employees pull their weight in hard times. “We had a rough couple

of years during the recession,” she said. “We survived because of engagement.”

LESSONS LEARNED:

- Ensuring that all employees clearly understand key financial metrics and how to influence them can make the difference between surviving and failing in an economic downturn.
- A brand that reflects employee engagement, community involvement, and environmental stewardship can engender customer loyalty

Small but mighty

Full Sail

The Story | Full Sail Brewery handcrafts artisanal beers from local ingredients and the pristine waters of the Columbia River. The brewery’s engaged team of about 90 employee owners work hard, play hard, and create a product that is “not just good, but insanely great,” according to the Full Sail Brand Mantra.

Engagement Strategies | Full Sail hires carefully and cultivates a culture as a resourceful, independent operation. In 23 years of operation, the company has had very little turnover, and many on the management team were promoted from within. The company has always had an open book management philosophy, which increased with its transition to an employee stock ownership plan (ESOP) structure in 1999. One open book strategy is to put potentially confusing financial language into “per barrel” terms – a frame of reference brewers understand.

In addition, human resources are a key part of the executive management team, and the company’s current HR director was originally a brewer. CEO Irene Firmat has her reasons: years ago she worked for a large apparel company in which HR was “just a name on the door.” She made a lot of money for the company and was rewarded – but not by nearly the amount she made for them. As Full Sail’s founder, she wanted to do things differently. Human resources is “a way we approach our assets,” she said. “The people we hire are one of the biggest investments we make.”

Shared Ownership | This commitment to employees was the main reason the firm became an ESOP, but Firmat stresses that a successful ESOP requires a great deal of care and intention. “You can’t just say you’re an ESOP and it just happens,” she explains. “Part of the challenge is to get people to talk about it so that they appreciate the opportunity they have as owners rather than merely having a sense of entitlement.”

The company carefully manages the education of employees in their rights and responsibilities as owners. At six months, new hires sit down with a supervisor to talk about why he or she should

become vested. Managers frame equity sharing as a privilege to be earned.

In addition to shares in the ESOP, employees receive performance bonuses tied to individual goals and overall company financial results. Firmat says she challenges employees to think carefully about the contribution they are making in exchange for receiving an equity stake in the company.

While the ESOP has helped those employees who were already engaged to become more so, Firmat says the effect isn't across the board. "For the group of people it really inspires, you get some extraordinary outcomes," she said. "And for some it can take more time to understand that they are truly owners, yet we have found that they have become more thoughtful about how to use resources and waste less."

Business Results | When it comes to measuring the impacts of employee ownership and engagement, Firmat mentions low employee turnover, but stresses the importance of hiring carefully and keeping only those employees who are adding value and contributing to the company culture. Another impact is great customer service. Full Sail's engaged employee owners are passionate about great customer service and know that "every interaction is a chance to win that customer for life," she says.

While positive customer interactions can be an excellent indicator of a strong internal culture, recession survival can be revealing, too. The



AT A GLANCE FULL SAIL

Business: Regional craft brewery

Location: Hood River, OR

Revenues: N/A

Employees: 90

Ownership: Employee stock ownership plan (ESOP)

Engagement:

- open book management
- performance-based bonuses
- high involvement hiring
- promotion from within
- clear communication
- encouraging responsibility and decision making at all levels
- HR director part of executive management team
- culture of respect and trust

Business result:

- low employee turnover
- lifelong customers
- increased profitability during economic downturn

most recent downturn caused a jump in barley and hops costs, which could have driven up the price for Full Sail's beer – already a luxury item.

Firmat issued a challenge to increase efficiency and reduce costs, thus avoiding a price hike and keeping the company competitive. Supervisors worked with their teams to flesh out a cost-cutting strategy from the ground up. Ultimately, the company beat their projections by year's end – and sales increased by 20% despite the downturn. "It was really cool to see employees take ownership of it," says Firmat, who noted that employee-led innovation, rather than management, was a big point of pride.

Employees have demonstrated their commitment to Full Sail in other ways. Devoted outdoor enthusiasts who are passionate about sustainability, employees have spearheaded a range of internal green initiatives garnering local and state recognition while saving the company money, including:

- A four day workweek (four 10-hour shifts), reducing power consumption and water use by 20%
- Energy efficient lighting and air compressors saving 400,000 kWh of power annually
- Practices that reduce water consumption by 3.1 million gallons each year (only 3.45 gallons of water used per gallon of beer produced, compared to industry average of 6 to 8)

Full Sail's engaged employee owners enable this small, independent brewery to remain competitive. Firmat makes it sound easy. "At the end of the day it is about treating people with respect, communicating well, and finding ways to use our resources most efficiently," she says.

LESSONS LEARNED:

- **Be sure an ESOP is right for your company; if so, put the time and effort in to ensure its success**
- **High-involvement hiring is key to maintaining a strong company culture.**
- **Engaged and empowered employees can often create successful strategies to increase efficiency and profitability.**

Growing a Strong Employee Culture

groSolar

The Story | groSolar, headquartered in White River Junction, VT, is a company that makes the story of “triple bottom line” (people, planet, profits) easy to tell. The 152-employee firm is fast growing, has a product that saves money and energy, and works to instill a strong culture of employee engagement across multiple locations. The company is a leading designer, installer, and distributor of efficient systems for solar electricity and solar hot water nationwide. With a network of warehouses across the U.S., groSolar is the largest 100% US owned distributor.

CEO Jeff Wolfe says the company’s aim is to put “as many solar panels as we can on as many roofs as fast as we can.” And although they are doing just that, employee motivation comes from a deeper sense of purpose. “People are willing to contribute to a larger good when it matters to them,” says Wolfe.

Engagement Strategies | groSolar has twice been recognized as a Best Place to Work in Vermont. Employees receive 70%-80% employer-paid healthcare. About 80 early employees hold stock options. And employees receive a discount on solar panels. The relaxed work environment means there’s no time clock or dress code, and well behaved dogs are allowed at work – perks that are not taken for granted and demonstrate trust, according to Human Resource Director Shelly Bragg, who is part of the executive management team.

Careful hiring is another key practice. Bragg interviews 95% percent of potential hires not just to confirm their readiness for the job but to be sure they “absolutely fit with our culture,” she said.

Continuous communications and career path opportunities are other important parts of the groSolar model. Management leads monthly webcasts where Wolfe shares specific details of the company’s performance and the broader solar market. “We talk about the numbers at a high level and share successes and challenges,” he explains. “The hardest thing at a company is communication, especially when you are spread across the nation. We let people know that if you

don't know something, probably no one else knows it either, so that people in remote offices don't have the feeling of being left out."

Wolfe makes it a point to sometimes announce strategic or interesting news from a field office rather than always at HQ. "I spend a lot of time on the phone, and I try to respond quickly to emails and share information with others," he said. The company also has a monthly newsletter to communicate key developments.

Wolfe notes that phone conferences and, increasingly, webcasts have improved intra-office connectivity. Video conferencing was added after a survey revealed that employees wanted the company to take more steps to better unite remote offices. Employees at all levels also visit other locations for training and sharing of best practices. "We're strong believers in the face to face," says Bragg.

In addition to flexible work schedules, the company has stepped in to help coordinate carpools. In one case, four employees were able to save more than \$100/week by carpooling. In addition, the company offers the option to telecommute, which Wolfe says has allowed them to attract and retain strong employees. "They work very hard for us as a result."

Given its size and capacity, groSolar offers an important perspective on the workforce development needs of the new green economy.



AT A GLANCE GROSOLAR

Business:

Residential and commercial solar installation

Locations:

White River Junction, VT

Employees:

152

Revenues:

\$57 million in 2009

Ownership:

Broad based equity sharing for early employees

Engagement:

- clear communication of core values
- HR Director part of executive management team
- flexible work schedules and telecommuting
- extensive training
- strong benefits
- culture of trust and respect

Business result:

- excellent customer retention
- increased ability to integrate acquisitions

“We need people with solid skills that we can train,” Wolfe explains. “At our rate of expansion, we’re inventing a lot of processes. So the competence of our people may well be the difference between our success and failure in the downstream solar markets.”

He adds that workforce development and educational institutions must be tuned to “what business really needs.” In the meantime, groSolar has sometimes taken a role in training local contractors in green building design, such as when the headquarters location installed solar panels and other green features. Bragg notes that helping build local skills will ultimately pay dividends to the company in increased business.

Business Results | Its culture of engaged employees has been key to groSolar’s fast growth and ability to smoothly integrate multiple acquisitions across the U.S. over the past five years. The bottom line for this fast growing green economy company is its people. “Everyone says this, but employees really are our most important resource,” says Wolfe. “We ask a lot of them and reward them well.”

LESSONS LEARNED:

- **A strong culture of employee engagement can be carried across multiple company locations with care, conference calls, travel, and excellent communications.**
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Fast Growth Through Engagement

Namaste Solar

The Story | Namaste Solar, a Boulder, Colorado-based solar integrator, has racked up recognition for its sustainability efforts and sector innovation from local business journals, the national press, even President Obama. The five-year-old company has grown fast, earning more than \$15 million in revenue in 2009 and growing from three employees to 70.

Co-Owner and Chief Financial Officer Stephen Irvin credits the company's flat management and broad based equity sharing as key to the firm's rapid rise. "Our ability to handle breakneck growth is helped by our shared ownership structure – everyone is thinking and engaged each day in running the business with an eye on our collective mission and values," he said.

Engagement Strategies | Irvin notes that the hiring process is a long one at Namaste, where care is taken to hire a long-term partner in the business. "We hire the person and their values, not just the job role," he says.

The company practices open book management and uses consensus based decision making. Company financials are reviewed in a monthly staff meeting and at the end of the year, and all employees are taught to read a balance sheet and income statement. All employees were paid the same in the early years; today, no one can make more than twice the lowest paid employee. Compensation is determined by a committee, whose work includes peer-to-peer interviews across the company's divisions and salaries are known by all co-owners.

Clear communication is a core value at the firm – so much so that Namaste has trademarked FOH™ – frank, open, and honest communication. This approach prevents gossip and results in any issues being resolved quickly and respectfully, fostering an atmosphere of trust and respect, according to Irvin.

In addition to its internal engagement strategies, community service is important to Namaste. The company sets aside 1% of revenue for donations to install solar at nonprofits, and employees set aside time to participate in educational programs targeted at a variety of audiences, from consumers to professionals, about solar energy. Drawing on the definition of the Sanskrit word Namaste, the company strives to be a model of harmony between all stakeholders. Its stated values are “care of the earth, care of our customers, care of the community, care of the company, and care of ourselves.”

Shared Ownership | Namaste is somewhat unusual in its broad based equity sharing practices – encouraging all full time, salaried employees to buy restricted stock immediately upon hire, as opposed to the more common practice granting employees stock options (the ability to buy stock in the future at a price set today). Employees become fully vested in five years. There are no majority stock holders and over 90% of employees hold stock. Ownership also helps with employee retention, as employees are keen to watch the stock price of the company increase.

Business Results | Namaste’s culture of engaged employee owners is a key competitive advantage, according to Irvin. Employees think and act like owners, whether installing panels on the roof of a home or managing administrative functions. Satisfied customers



AT A GLANCE NAMASTE SOLAR

Business:

Residential and commercial solar installation

Locations:

Boulder, CO

Employees:

70

Revenues:

More than \$15M in 2009

Ownership:

Employees purchase restricted stock with full voting rights

Engagement:

- high involvement hiring
- clear communication of core values
- open book management
- democratic decision making
- culture of respect and trust
- community involvement

Business results:

- low employee turnover
- superior customer service and satisfaction

naturally respond to this by making referrals. Over half of the company's sales come by word of mouth and the firm routinely racks up strong customer survey responses. The company also excels in employee attraction and retention – only three employees have left in five years.

LESSONS LEARNED:

- **High involvement hiring, shared ownership, clear communication, and a culture of respect are key to managing fast growth**
-



Continuous Improvement for Remarkable Interactions

PrintingForLess.com

The Story | PrintingForLess.com does more than the competition when it comes to creating a culture of shared ownership and teamwork. This fast-growing, 150-employee printing company near Bozeman, Montana has fully embraced high performance strategies like open book management and employee ownership through broad-based stock options – and it’s paying off.

Engagement Strategies | There are many strategies the printing shop has developed to help its culture evolve. An assessment given to all employees identifies their preferred communication style, which helps co-workers know how best to approach each other. New employees are required to read and sign an agreement with the company’s mission and values statement, which includes such principles as “high performance,” “extreme customer service,” and “buoyant, indomitable optimism.”

Part of this statement – the company’s strict “no gossip” policy which helps promote a strong team culture of trust and respect – was described in a recent New York Times blog post. It resulted in “a ton of phone calls asking how we do it,” says Suzie Lalich, Human Resources and Benefits Director.

The company also frequently promotes from within and provides many opportunities for entry level employees to advance. Lalich says the company prefers promoting existing employees over hiring those from outside – unless they need particular new ideas and skills. “We’ve had a lot more success with people fitting into our culture in middle and upper management when they move from within,” she explains.

In addition to constantly updating financial targets on employee’s computer dashboards, other open book management techniques include daily huddles, clear and regular communication of goals, and accountability.

Employees undergo eight to 10 weeks of training. To promote cross-department communication, the company held a video contest, inviting employees to submit videos that describe their work in a creative way. PrintingForLess University, another internal resource, lets employees gain instruction on such company skill sets as online processes and machine repair.

Corporate stewardship towards the community and the environment are demonstrated through company based clothing and food drives. The company is 100% wind powered. And a budget is available for the company to make contributions when employees participate in charitable events of their choosing.

Finally, PrintingForLess, which has won numerous awards for its fast growth, excellent management practices, and superior customer service, makes its employees' lives easier and more enjoyable with its onsite daycare and policy to permit well behaved dogs at work.

Shared Ownership | PrintingForLess.com's strong company culture is reinforced by shared equity, a structure that was important to CEO Andrew Field. About 20% of the firm's equity pool is distributed broadly to all full time employees in the form of incentive stock options (ISOs). The concept of shared ownership is "communicated over and over to employees," says Lalach. "They know they have a stake."



AT A GLANCE [PRINTING FOR LESS.COM](http://PRINTINGFORLESS.COM)

Business:

Web-based printing services

Locations:

Bozeman, MT

Employees:

150

Revenues:

\$57 million in 2009

Ownership:

Broad based stock options

Engagement:

- open book management
- clear communication of core values
- promotion from within
- extensive training
- performance based bonuses
- community involvement

Business result:

- low employee turnover
- high customer satisfaction and retention

In addition, all full time, regular employees are eligible to receive bonus compensation quarterly. The self-funding bonuses are based on specific criteria related to the overall business performance. Senior management meets each quarter to determine which three of nine standard metrics to focus on, such as customer retention or sales. The summer quarter of 2010, for example, had the theme of “continuous improvement for remarkable interactions.” Each of the three metrics can be met at a low, medium or high level. If all three are met at the highest level, 100% of the bonus is paid; proportional bonuses are also awarded for meeting some combination of the lower goals.

Business Results | PrintingForLess.com’s engagement practices are a strong factor in the firm’s growth and financial results, says Lalach, which are measured through the firm’s ability to pay out the self-funding bonus pool, excellent customer retention (a page on the company website is devoted to video and written customer testimonials), and a customer referral metric. Average employee tenure at the still relatively young company is about 5 years and voluntary turnover is considerably below average, according to Lalach.

When asked if the company’s practices helped them weather the recession, the answer was an unequivocal yes. “There was fear but because of our open book management employees knew how the company was performing

the whole time,” says Lalach. “Understanding what the company was going through contributed to less unease among employees.”

Although the recession made some layoffs a necessity, she was quick to note that open communication countered employee speculation about their job status. And former employees often stop by to visit – a testament to the PrintingForLess.com approach to running a business.

LESSONS LEARNED:

- **A strong and well communicated culture motivates employees and pays dividends.**
-

Hire Right and Promote from Within

Red Door

The Story | When someone at Red Door Interactive does a good job, a fellow employee will give him or her “mad props” – the firm’s term for recognition and praise. It’s just one of the ways the tight-knit corporate culture at Red Door Interactive has helped propel the internet-technology company’s lightning-fast growth. Amy and Reid Carr launched the award-winning firm in San Diego in 2002. Red Door specializes in creating websites and managing the Internet presence of local and national brands.

Engagement Strategies | The company places a premium on promoting from within and looks to create new roles based on employees’ strengths and the needs of the firm. Amy Carr, Executive Vice President of Human Resources, says Red Door prefers to “develop a bench” by hiring carefully at entry-level followed by intense training and cultivation into more senior positions. This way, she explains, upper management is fully engaged with the company’s customer service-focused culture.

Five of Red Door’s 53 employees are entry-level. Most, however, have undergraduate or advanced degrees in their specialization. Trainings for management and non-management are offered frequently and range from job function related skill building to approaches to conflict resolution. At the end of 2009, 36% of employees had participated in a management training program. “Our challenge has been to develop those people into managers and create the structure where there is opportunity for people to develop in their careers,” says Carr.

The core company philosophy involves maximizing peoples’ strengths and helping them follow their interests and affinities as long as they match needs of the company. “There are lots of opportunities for people to become experts in new things,” says Carr. “And we always try to put people in the right roles.”

Learning and growing is part of the corporate culture at Red Door. Every fall, the company's president asks employees for a list of things they should start doing, stop doing and keep doing. "We're looking to improve the number of 'keeps,'" says Carr. Employee-cited "keeps" from 2009 include Red Door's 360 degree reviews, employee recognition and rewards, the company's core values, and its work/life balance flexibility.

To give non-managers a chance to take the lead, Red Door instituted several committees, including the Morale and Culture committee. This group keeps the office lively by organizing holiday parties and cook-off contests. In 2010, the committee investigated wellness program options. Employees may also nominate one another's outstanding performance using a peer recognition tool that is displayed on the company's internal computer network. One nominee per quarter earns a paid day off.

Carr describes the company's employees as members of "Generation Y" who "really want to participate in success and have their voices heard." Although company equity is not shared broadly, Carr and the rest of the management team developed a variable pay plan with a cash bonus that aligns compensation with company performance. "Our business model is to provide value to clients," says Carr. "We want employees to understand what they do that provides value."



AT A GLANCE RED DOOR INTERACTIVE

Business:

Internet presence management

Location:

San Diego, CA

Employees:

53

Revenues:

\$10.4 million in 2009

Engagement:

- high involvement hiring training
- promotion from within
- performance based bonuses
- engagement surveys
- employee recognition programs
- HR Director part of executive management team
- culture of trust and respect
- community involvement

Business result:

- low employee turnover
- increased profitability during economic downturn

The variable pay plan is based on five key company metrics, emphasizing customer satisfaction, three internal metrics around sales and profit margin, and a final metric around utilization of people. The cash bonus, based on hitting those metrics, is awarded based on a percentage of salary.

Other benefits include a no wait period on the company's 401(k) retirement plan and a health savings account with company contribution. Red Door offers flexible work schedules, which Carr says the Gen-Yers value and helps the firm show trust and long-term investment in employees.

Such benefit programs and engagement tools are linked to the company's clearly communicated core values and business outcomes. Their corporate credo: Inspire, Share, Evolve, Exceed, and 100% Jerk Free (i.e., encouraging each other to take chances; fostering flexibility, open-mindedness, forward-thinking concepts and taking creative and strategic risks; and maintaining a culture of open-minded acceptance and respect 100% of the time). The company is in the process of further quantifying these values to demonstrate their impact on sales, revenues and other performance indicators.

Business Results | Since its founding, the company has had strong year over year growth, expanding by 40% in 2008, with \$10.4 million in annual revenues in 2009. At the same

time, the company's focus on strong human resource practices has resulted in numerous awards, including Inc. Magazine and Winning Workplaces' Top Small Company Workplace in 2010 and San Diego Business Journal's Best Place to Work for the past four years running.

Employee average tenure is a little over three years, but this number is relative. Due to the company's high growth, there have been many recent hires. Some Red Door employees have been with the company since its founding. And as the corporate credo states, "We're 100% jerk-free," Carr says. "If we hire a jerk, other good people will leave. It costs five times more to replace the jerk."

LESSONS LEARNED:

- Hire carefully, train, and promote from within to ensure upper management is aligned with the company's customer service-focused culture.
- Align compensation with company performance on key metrics.
- Employee engagement surveys are one tool for continuous improvement.

A mission-based for-profit

The Redwoods Group

The Story | Founder, President and CEO Kevin Trapani of The Redwoods Group, a specialty insurance provider, was told when he started his business that it would never work. Especially his dream to create a social business model, inspired in part by *Soul of a Business* by Tom Chappell. But Trapani, who as a young person often heard his parents say that “to whom much is given, much is expected,” persisted in his vision. Today the company earns a sustainable profit and fulfills its social mission by donating a minimum of 10% of pretax profits each year to charity.

According to the company’s website, a key component to The Redwoods Group’s business model is to choose markets that are underserved and whose decision makers both resonate with the firm’s social mission and will adopt recommended risk reducing practices. For this reason the firm only works with YMCAs, Jewish Community Centers, and nonprofit resident camps, and actively trains these customers to develop a “culture of safety.”

In 2007, the firm sold a division and used most of the proceeds to help fund The Redwoods Group Foundation, a separate entity, which gives out about \$700,000 in grants to nonprofits each year. Equally unusual, the company is comfortable reporting a loss (its first was in 2008) and will not pursue short term gains to avoid it. Facing a \$66,000 shortfall one year, the firm dipped into reserves rather than lay off a single employee, and there were no layoffs or benefit reductions during the recent recession.

Engagement Strategies | The privately-owned company’s motto, *Serve Others®*, is reflected in its relationships to its employees, its clients, and the larger community. Redwoods’ 85 employees are required to spend 40 paid hours a year performing community service with an organization of their choice. If they spend more time, the company donates ten dollars per hour spent to the charity.

The company is firmly committed to parity in salaries and benefits. The CEO’s salary is no more than 10 times as much as the lowest paid employee. Employees’ 401(k)s are matched dollar

for dollar up to 6% and employees making \$35,000 or less have 100% of their health care insurance premiums paid. Those making between \$36,000 and \$40,000 have 90% of their premiums paid. One entry level employee told Trapani that having the company pay a larger share of the premiums (so that she didn't have to rely on Medicaid) "saved her dignity." Redwoods also subsidizes the cost of college education for employees' children up to \$5,500 a year.

In addition to generous benefits, the company shares profits – and turns the usual corporate bonus structure entirely upside down. The first employees to be awarded bonuses are lower level employees, then management, then executives. Bonuses are two-part: first, almost all employees in good standing receive them on an annual basis, depending on that year's profitability. The second part is a company-wide, performance-based merit pool where all employees benefit when the firm meets certain goals. Broad based equity sharing is part of a longer term plan, but will not be put in place until, Trapani says, they can find the right way to do it.

The Human Resources director is part of the executive management team. Trainings, mostly led internally, are a constant. Trapani sees the company's HR staff as coaches: employees that need to address a problem are encouraged to go to their supervisors. To make communication more effective,



AT A GLANCE THE REDWOODS GROUP

Business:

Specialty insurance

Locations:

Morrisville, NC

Employees:

85

Revenues:

\$11.6 million in 2009

Ownership:

- extensive training
- clear communication of core values
- strong benefits
- HR Director part of executive management team
- paid time off for community service
- profit sharing
- performance-based bonuses

Business result:

- low employee turnover
- superior customer retention

supervisors and employees each participate in an annual self-assessment of strengths and weaknesses, which is followed by a gap analysis, then targeted problem solving. According to Trapani, the gap is smaller each year.

In addition, The Redwoods Group, a certified B-Corp, has conducted a social audit every year since 2004 as part of its annual report to report on the company's mission-related performance, including successes and progress as well as areas for future improvement. The firm was named a 2009 Best Place to Work in Insurance.

Business Results | Turnover at the firm is also very low at about 5% annually. Many employees have been with the thirteen-year-old company 10 years or more. Most promotions are internal and Trapani says employees are "happy to move into more demanding jobs."

Customer retention is also consistently high from year to year. In 2009, at the heart of the recession, the company had budgeted for 85% customer retention but achieved 91%. In a non-recession year, customer retention has been as high as 97%.

Other metrics have been strong for the company as well. The insurance market has been soft for a number of years and industry-wide loss ratios reached 80%

last year. However, Redwoods' rate was 50% (meaning that only 50 cents of every dollar is spent on losses rather than 80 cents). Uncharacteristically for an insurance company, Redwoods actively works with and offers trainings to customers to change operating behavior to reduce risk.

The Redwoods Group's employee and community engagement clearly differentiate it from industry peers. Trapani says the firm is more influenced by the writings of Dr. Martin Luther King Jr., the civil rights leader, than Tom Peters, the famed business management coach. The lesson in Dr. King's teaching, Trapani says, is "how to subordinate yourself to others to demonstrate caring."

LESSONS LEARNED:

- **Choosing the right markets to serve and screening customers who will adopt risk reducing practices is good business in the insurance industry.**
- **Serving employees, customers, and the community well can lead to excellent employee and customer retention and better than industry average performance even in an economic downturn.**

“Best Job You’ve Ever Had”

Ryla

The Story | With explosively fast growth since its 2001 founding, Ryla has been recognized on Inc. magazine’s list of high growth companies for four consecutive years. Revenues climbed steadily from less than \$1.1 million in 2002 to over \$100 million in 2009. The number of employees increased from 20 in 2002 to more than 3,500 today, the majority of which are entry level positions. Ryla was also lauded as a Top Small Workplace in the U.S. by *The Wall Street Journal*, and one of the top 500 African American Owned Businesses in the U.S. by DiversityBusiness.com.

Engagement Strategies | How did they do it? One piece of the puzzle is the company’s extraordinary corporate culture that emphasizes employee engagement and involvement. Headquartered in Kennesaw, GA, Ryla provides call center services and other customer care solutions for large- and medium-sized corporate customers. Service is delivered by a highly motivated workforce, trained to focus on courtesy and empathy when interacting with customers (the company motto, emblazoned on the wall of the office, is “Excellent Interactions Every Time”). The agents’ friendly attitude is ideal for clients that strive to differentiate themselves through superior customer interactions.

While Ryla’s success is aided by a strong operations platform and cutting edge technologies, the employee-focused culture stands out as the distinctive competitive advantage of the organization. Workforce development strategies include comprehensive recruiting, extensive training, promoting from within, team-based operations, onsite cafe, a 401(k) plan with company match, and health benefits.

The company long held spontaneous “huddles” or stand-up meetings in which Mark Wilson, the firm’s founder and former CEO, updated everyone on the latest business developments. Wilson also personally attends at least one session of the extensive new employee trainings. One of the great successes of Ryla has been its ability to scale its culture as it grew to 175 times its original size. Wilson says the company now conducts daily huddles led by each department head as a way

of keeping the engaged culture even as the firm grows. “It takes more of my time,” says Wilson, “but it is well worth it.”

Ryla’s work environment buzzes with a palpable friendliness and vibrancy, a tone first established by Wilson. He said that creating an atmosphere where our people feel it’s “the best job they have ever had” is an essential element of Ryla’s business model. Employees say that the tone of mutual respect is key to attracting and retaining a loyal and committed team.

Shared Ownership | Stock options were shared broadly early on; twelve employees, or half of the original team, were still with the company at the time of the 2010 merger and gained significantly. They include Siovan Williams and Cathy Daniels. Neither has a high school degree and both started as agents on the phone and then were given the opportunity to train for higher paid, higher skill positions.

Williams moved first to training new agents and then helped pioneer the reporting department, where she mines and interprets data both for internal use and for clients. Without a college degree, Williams says her opportunities at the firm have been tremendous. “It’s almost unfathomable for someone with very little professional experience to have such incredible training and opportunity,” she said. Williams received approximately \$18,000 as a result of the recent transaction, allowing her



AT A GLANCE RYLA

Business:

Customer contact management

Locations:

Kennesaw, GA (headquarters) and Saraland, AL

Employees:

More than 3,500

Revenues:

101 million in 2009

Ownership:

Monthly performance bonuses, stock options for early employees

Engagement:

- high involvement hiring
- extensive training
- promotion from within
- employee rewards and recognition
- community involvement
- culture of trust and respect
- clear communication of core values
- subsidized meals at onsite café
- monthly performance bonuses

Business result:

- customer satisfaction/retention
- outperforms industry in employee tenure

to complete critical home repairs that would have been difficult to finance otherwise.

Daniels also went from an agent on the phone to the technology side of the business and notes that the company does an excellent job of promoting from within and training people in new areas. “It would be easier to bring people in from outside but they are committed to growing existing employees,” she said. Daniels said holding stock options was a significant motivator for her over the past few years. “I felt more a part of the company as a result of having options,” she says. The windfall she received from cashing in her options this year allowed her to make home and car repairs and pay off several bills.

Business Results | Ryla’s many employee engagement practices add up to improved bottom line performance, including fast growth and much lower than usual employee attrition rates – an important differentiator for an industry known to struggle with 100% and higher annual turnover.

Ryla’s attractive workplace culture also helps the company scale faster than its competitors when new projects arise. The company’s own employees often recruit friends to work at Ryla when the firm is ramping for a new project, and new employees are often willing to work for a onetime project with the hope of becoming a permanent employee at this special company.

LESSONS LEARNED:

- An authentic culture of mutual respect created and reinforced by top management, coupled with frequent and clear communication of the company’s core values, can result in a dynamic and successful workforce that outperforms its competitors.
- A strong workplace culture can be scaled with intention and effort as the company grows: for example, holding seven huddles to share good news rather than one.
- Investing in entry level workers with extensive training and promoting from within can be a good strategy for maintaining an excellent customer service-focused culture.

A Fantastic Culture

Salvage Direct

The Story | Salvage Direct’s founder Bob Joyce set out in 1998 with the ambitious goal of revolutionizing the salvage vehicle settlement process. In time, that goal was reached through the company’s pioneering use of on-line auctions for cars, trucks, motorcycles, boats and recreational vehicles and technical innovations that reduce “salvage-to-settlement” times and maximize sales proceeds to insurance companies. Salvage Direct’s environmental impact is also significant and includes recycling and parts reuse for 49,000 salvage vehicles in 2009 alone.

Equally significant is the company’s local economic impact. The firm created 145 high quality jobs, mostly in rural Titusville, PA, an Appalachian town of 6,000 people with limited employment opportunities. Dan Hoversten, former CEO, said the company is one of the “five top employers in the town.”

Engagement Strategies | Salvage Direct jobs are highly coveted for their competitive salaries, good benefits including 100% employer-paid health, life, and disability insurance for employees (additional family members can be added at a small premium), matched 401(k)’s, continuing education assistance, opportunities to work in a high tech business and broad-based employee stock options. Eighty-three of the company’s jobs are entry-level positions and 79% of employees participate in the retirement savings plan.

Employees also share in one of two annual bonus pools (upper management is separate). “We made it clear the bonus was not a gift – if the company did well and the board signed off, then it would be awarded,” Hoversten explained. Nonetheless, awards were given out every year under Hoversten’s four year turn as CEO.

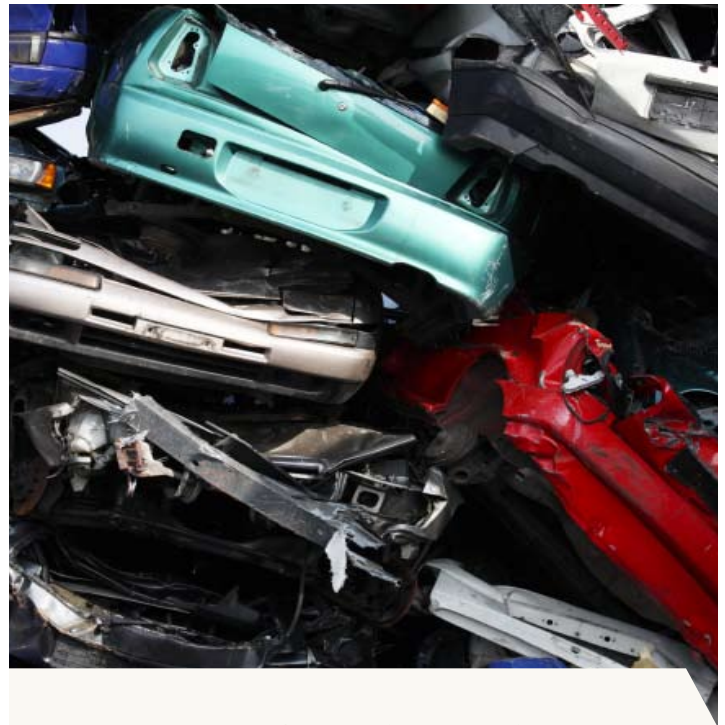
“In 2006, the first year it was awarded, we had people in tears over \$1,300 bonuses” he recalled. “People used it for Christmas to buy toys for their kids and pay off their bills.” The company always tried to award the bonuses for non-management in December for that reason, even though

the company's books were not closed for the year. Management received their bonuses in January.

A strong employee culture based on what Hoversten called "mutual respect" is one of the company's most outstanding features. Far from a staid work environment, though, Hoversten said "we had a good culture - we worked hard and had a lot of fun."

To show employees how valued they are, the firm throws a big annual party with plentiful food and entertainment for customers, employees, and families. Employees get to play golf at a cut rate each Tuesday and employee retirements or going away parties are celebrated at a local brewery. Employee inclusion is cemented in matching company gear - a \$50 credit towards the purchase for Salvage Direct apparel makes people "feel like part of the organization," said Hoversten.

Shared Ownership | Many non-management employees were part of the broad based stock option plan when Salvage Direct was acquired by the nation's largest independent salvage auction company, QCSA Auctions, in May 2010. Besides providing strong returns for its investors, Salvage Direct's sale resulted in meaningful cash distributions to 67 employees. Fifty-eight non-senior management employees received average net cash proceeds of \$7,632 from their stock option shares - a highly impactful award for



AT A GLANCE SALVAGE DIRECT

Business:

Salvage vehicle management

Location:

Titusville, PA

Employees:

145

Revenues:

\$21 million in 2009

Ownership:

Broad based stock options,
annual bonuses

Engagement:

- promotion from within
- strong benefits
- employee rewards and recognition
- culture of respect and trust
- annual bonuses

Business result:

Currently the third largest company in the salvage vehicle auction industry

employees averaging \$32,596 in annual salary. Hoversten said most people will pay off bills and buy major appliances with the proceeds. The buyer currently plans to retain all Salvage Direct employees and maintain the jobs in Titusville.

Business Results | Salvage Direct grew to become a significant player in the Mid-Atlantic region, a national competitor for catastrophic event response, and one of the largest sellers of salvage vehicles in the U.S., ranking among the top five in the industry by volume sold. The firm's team of engaged employees helped grow the company to the point where it was attractive to industry leader QCSA.

LESSONS LEARNED:

- A culture of working hard and playing together can help build a strong team.
 - Paying out bonuses prior to year end is meaningful to non-management employees
-



Quality Through Ownership

The Signature Group

The Story | Michael Perdue, CEO of The Signature Group (TSG), would not hesitate to tell you that there is a clear link between his company’s employee engagement strategy and their bottom line. In fact, he says that “every company in America should be employee owned.”

TSG, founded in 1997, provides information technology consulting, project management and support services. It’s the kind of company where the CEO wants all employees to act, think and feel like owners. Equity is broadly shared in the form of stock options; about 6% of the company’s shares are distributed to the employees each year for their contribution to the growth and reputation of the company.

Engagement Strategies | The company’s primary competitive advantage is its “Culture of Excellence” which results in high quality of service and solutions that are delivered on time, on budget, and with the ability to scale flexibly as the client’s needs grow. The Culture of Excellence includes the core values of excellence, passion, integrity, teamwork, respect, accountability and innovation. According to the company’s website, every clients’ project is engaged with a “never quit, never die attitude” that ensures the highest level of quality. And Perdue stresses that employees are high-performing and held to account by their peers. “Performers fit right in and we hold onto them,” he says. “Dead wood doesn’t last long.”

Shared Ownership | Perdue says TSG thrives on the link between employee ownership and the bottom line. The company was founded on the idea that no one person would have a controlling interest. In fact, the top executive’s personal stake has gone from 39% originally to 22% today, with employees gaining the difference. “But my current 22% is worth much more than the original 39% since the company has grown,” Perdue stresses. “And without broad ownership, we would not have weathered the economic downturn.”

All of the company's 50 employees are full time and participate in the equity plan, which is based on a fixed and "well-defined matrix." Grants are distributed at hire, each quarter based on individual performance on business development and project execution goals, and on a discretionary basis according to achievement.

Each year, the Board approves an option distribution rate tied to goals set within the annual business plan. Depending on how the company is performing against this plan, a percentage of the predetermined rate is distributed (for example, meeting a goal by 80% means 80% of the overall company rate of 6% would be distributed; at 120% of target the company would distribute 120% of the 6% rate). Although the formula is fixed, there is some flexibility. For example, the distribution rate was increased when the company moved into an aggressive growth position and began significantly increasing staff. Employees are able to exercise options or sell their shares on a quarterly basis via a self-funded internal stock market, and employees participate in an orientation as well as ongoing education about the value of the ownership plan.

When done well, CEO Michael Perdue says employee ownership is "directly reflected in the company's financial performance." But he stresses that if incentives are not clearly linked to hitting milestones and communication is unclear, distributing stock options broadly merely dilutes existing owners.



AT A GLANCE THE SIGNATURE GROUP

Business:

IT consulting, project management and support services

Location:

Vienna, VA

Revenues:

\$10 million

Employees:

50

Ownership:

Broad-based stock options

Engagement:

- extensive training
- strong benefits
- clear communication of core values

Business result:

- low employee turnover
- high client retention and satisfaction,
- strong performance during the recent recession

Business Results | The company’s philosophy is shared internally and recognized externally. Quarterly reports have a section dedicated to describing the ways that employee ownership helps benefit their sector. And, for seven years in a row, TSG has been lauded by Microsoft and CISCO for customer satisfaction. Perdue says that recognition is directly attributable to the employee ownership program, since all clients are served by employee owners who are incentivized to focus on customer satisfaction.

Perdue grew up in Huntsville, AL, where employee-owned innovator SAIC had a major presence. He has worked both for employee owned companies and non-employee owned companies. Based on his experience, employee ownership is extremely valuable. “It’s amazing to see examples of the benefits of employee ownership manifest where [one] wouldn’t expect it,” says Perdue. He recalls a few years back when an all-hands-on-deck team, from senior staff to the receptionist, worked over the weekend to meet a tight deadline on time. The team didn’t burn the midnight oil to be nice. “They wanted to be part of the stock option distribution associated with getting the project done.”

LESSONS LEARNED:

- **Tie incentives such as broad-based stock options and bonuses to employee and company performance for maximum benefit.**
-

Building a Smart Company Culture

SmartPak

The Story | Fast growing companies would do well to pay close attention to creating a strong company culture, says Paal Gisholt, CEO of SmartPak, a 12-year-old manufacturer of custom animal supplements based in Plymouth, MA. But he stresses that general guidelines are called for, not “hyper directives.”

Gisholt and his wife, co-founder Becky Minard, built their business model around the advice of an early mentor. “He said that if you want to be innovative and grow, you should help people make good decisions by creating a great culture,” Gisholt recalls. “People who work best in a highly controlled environment may not break the mold for you and be innovative.”

Engagement Strategies | SmartPak’s culture was created and is reinforced by the company’s well crafted values statement and employee recognition program called SMARTER: speed, maniacal customer service, analysis, risk taking, teamwork, execution, and respect. A peer nomination process identifies one employee quarterly that best exemplifies each of the SMARTER categories. The nomination committee seats rotate across departments, allowing employees to build relationships with people outside of their division. The winners, celebrated at quarterly company-wide meetings, receive a \$250 check. Employees stay motivated on an ongoing basis by striving to win all seven core value awards, which earns them a \$1,000 check and lots of company-wide recognition. “The SMARTER program keeps our core company values front of mind – they are not just words on a wall,” says Gisholt. “All employees know them by heart.”

Care for employees extends to care for customers. Gisholt says the company has differentiated itself in the small but competitive custom-made animal supplements market through exceptional customer service, regularly outpacing its industry in sales by 5% to 10%. As Gisholt explains, “it is really hard to ask your team to treat customers really well if they’re not being treated well themselves.”

Unlike its competitors, SmartPak's sales and service representatives are salaried rather than hourly, with good benefits and nearly twice the rate of pay of others in the industry. "It's a huge premium but we ask more, we train them a lot more heavily, and we expect them to really connect with customers," Gisholt explains.

SmartPak mostly promotes from within, which means that many executives cut their teeth in customer facing positions. And although turnover is low, under 10%, Gisholt says a certain amount of turnover is fine. The most important thing is that the right people are in the right positions. "We're VC-backed with aggressive growth ambitions," he says. "We want to field the best team we can have who will play hard, play smart, and have fun."

Shared Ownership | SmartPak offers lessons learned from their employee gain sharing program. At the beginning, equity was shared with all employees. But Gisholt said his experience was that the tax implications were complicated for employees and after the dot com bubble, many did not put value in them. SmartPak decided to share equity only with top management and to compensate the rest of the employees "in the currency they value most:" short-term cash-related gain sharing.

The gain sharing is team-based to encourage team behavior and is based on three metrics: the amount of time per order, the quality level,



AT A GLANCE SMARTPAK

Location:

Plymouth, MA

Business:

Customized packs of supplements/food for horses and dogs

Employees:

230

Revenues:

\$63.4mm (year ended May 2010)

Ownership:

Gain sharing and bonuses for all, stock options for highest impact executives

Engagement:

- high involvement hiring
- extensive training
- promotion from within
- employee recognition program
- gain sharing and bonuses for all employees

Business result:

- superior customer retention
- largest direct marketer of their product even during recession

and days ahead of shipping goal. It is possible for the team to make a full or partial bonus or none at all depending on how the month went, says Gisholt. If there is no surplus to distribute, there is no bonus. “This system aligns the businesses’ incentives to the peoples’ incentives,” he explains. “People pay attention to the numbers and urge each other to set new records. It makes things more fun.”

Business Results | In addition to leading in industry sales rates, SmartPak has survived its share of storms largely because of its culture. In 2007, for example, there was a widespread recall of pet foods with ingredients manufactured in China, thought to be contaminated by a toxic chemical. The incident could have spurred a major catastrophe for the company. To add to the challenge, SmartPak’s owners were vacationing with their family when the news hit. But because the company had a plan in place and a well trained management team still on the ground back at headquarters, SmartPak’s recall plan went off without a hitch.

Gisholt credits his firm’s strong culture for SmartPak’s ability to respond to that major curveball. “If you have a good culture, people will make generally good decisions,” he says. “Not always the decisions you [as CEO or management] would make, but their decisions will be ten times better than if you have only control procedures.”

Ultimately, the company’s high involvement hiring, training, motivation and recognition, and metrics-linked gain sharing programs all add up. For Gisholt, “a culture of engaged employees has allowed us to survive and thrive even in a recession.”

LESSONS LEARNED

- Link employee recognition programs to core company values to keep those values top of mind for all employees.
- Likewise, link gain sharing with key business metrics so that employees truly understand what makes the company successful.
- Allow for mid-course corrections in your firm’s incentive structure to make sure it continues to motivate employees.
- A strong company culture of empowered employees who understand the company’s core values makes any storm easier to navigate.

Living the Golden Rule

Southern Energy Management

The Story | Southern Energy Management (SEM) is a fast growing energy services provider headquartered in the research triangle area of North Carolina. The 78-person solar powerhouse is poised to enter its tenth year a three-time winner of the EPA’s Energy Star Partner of the Year and the primary contractor for the largest solar systems in the Southeast.

The company’s website proudly attests, “we love what we do and it shows.” For SEM, good business practices are “as old as time,” according to Maria Kingery, the company’s Director of Cultural Development and co-founder together with her husband, Bob Kingery. “Treat others as you would like to be treated.”

Engagement Strategies | To that end, the company’s Human Resources Director has been a part of the executive management team since day one. Team spirit is fostered through community activities, including food, clothing and toy drives and Habitat for Humanity events. And the company supports employees through its mind-body-spirit program by establishing a library for the mind, installing a basketball goal for the body, and setting aside a quiet room for refreshing the spirit.

Kingery says the company is driven by an “attitude of gratitude,” a two-way street, ultimately, that has resulted in very little employee turnover. At team meetings, management requires people to talk about their own accomplishments and those of their team. This is one way the company measures its impact, along with keeping track of the tons of greenhouse gas emissions it avoids through its work. For example, the firm recently certified its 6,000th energy star home. Employees determine their own titles within their team as long as they accurately describe the individual’s function. The receptionist is the “Voice of SEM.”

Due to their recent certification as a B-Corporation, the company is working to establish a meaningful measurement of the spread between the lowest and highest paid employee. As the

company grows, evolves, and continues to develop innovative employee engagement strategies, they won't deviate from the company's constantly communicated core values of empowerment and responsibility.

Shared Ownership | Employees have the option to participate in the company's broad-based stock option plan after completing one year of service. So far, no employee has declined participation. Kingery believes employees are attracted to the firm not just by the equity sharing, but also because SEM does its best "to make sure people have a career path."

The founders – former employees of the natural personal care product line Burt's Bees – brought a profit-sharing ethos with them when they started their company in 2001. They point to their own experience participating in an option plan at Burt's Bees when they talk about broad-based equity sharing. While option grants are performance-based, Kingery says the company is "egalitarian at heart," one example of which is the near-equal benefits packages for employees across the board.

Because not all employees immediately understand why or how SEM is giving them an ownership stake, Kingery becomes an active manager, sitting down with each employee after their first year to walk through a set of slides that explain how the stock option plan works. [Options are first granted by position in



AT A GLANCE SOUTHERN ENERGY MANAGEMENT

Business:

Residential and commercial solar installation and energy efficiency services

Location:

Morrisville, NC

Employees:

78

Revenues:

~\$6 M in 2009; on track to exceed \$24M target for 2010

Ownership:

Broad-based equity sharing

Engagement:

- high involvement hiring
- extensive training and career path
- clear communication of core values
- HR Director on exec. management team
- employee recognition
- culture of empowerment and responsibility
- gainsharing plan under development

Business result:

- Customer satisfaction/retention
- low employee turnover

the company and tenure, and then additional awards are based on performance.]

Kingery says that, if and when employees sell, the goal is that they “walk away with a bigger nest egg than they ever could grow on their own.” She wants to pay people well and sees granting options as a motivator, noting that there is no guarantee they will deliver cash one day. Employees are told that their ownership allows them to make a “mutual investment in SEM’s future.”

While shared ownership does help to keep everyone on the same page, according to Kingery, it can also present challenges: in a recession year like 2009 when the company knew early on that they would miss their target numbers, employees didn’t stop trying, but it was harder to manage their expectations.

Business Results | SEM correlates better customer service and satisfied customers with great employee practices. A survey conducted in 2009 resulted in a great deal of positive feedback, with one customer awarding SEM an 11 on a 1-10 scale, despite not having a completely smooth installation. Kingery chalks it up to SEM’s culture of service – “helping people get what they want,” she said.

Kingery says she doesn’t even know all of the great interactions that are happening between employees. “But if you encourage and empower employees and give them a sense

of ownership,” she says, “cool things happen that ultimately result in better value for our customers and our team.”

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LESSONS LEARNED:

- **Consistent communication of the firm’s core values is key to maintaining and scaling a strong culture of engagement during fast company growth.**
 - **Broad based stock options are a strong motivator for performance in a strong economy, but have to be managed carefully during downturns.**
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