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Are Employees A Necessary Evil?

The Lowdown On High Style

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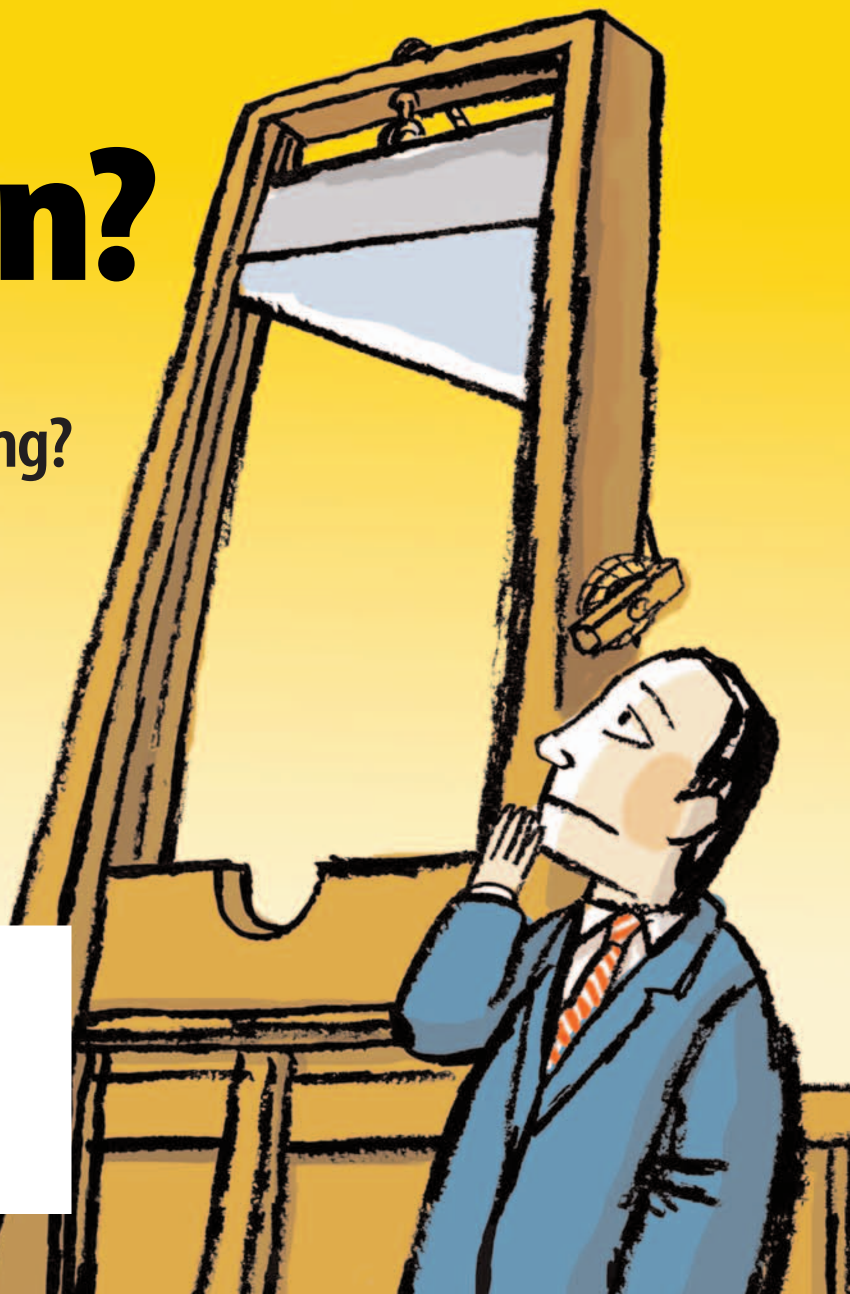
CEO pay is up,
worker pay stagnant.

So why aren't heads rolling?



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TEN DOLLARS

Employees Can't Get No Satisfaction . . .

. . . from jobs in big companies. So what can you do about it?

By Larry Farrell

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Modern-day jobs in big companies are characterized by "stifling boredom, grinding tedium, poverty, petty jealousies, sexual harassment, loneliness, deranged co-workers, bullying bosses, seething resentment, illness, exploitation, stress, helplessness, hellish commutes, humiliation, depression, appalling ethics, physical fatigue and mental exhaustion," writes Tom Hodgkinson, founder of the hilarious British magazine *The Idler* and author of *How to Be Idle*. (For more on the subject, see "Hell Is Work," on page 16.) Hodgkinson's solution is to opt out and become an idler (though I sense he's more of an entrepreneur than an idler himself).

His ranting may be a bit over the top, but employee satisfaction at Big Business does seem to have hit an all-time low. It isn't surprising given the continued downsizing of workers and the continued upsizing of executive pay. With Fortune 500 CEOs pulling down 550 times the average worker's pay, you could have Mother Teresa running your HR department and you'd still get no commitment from the rank-and-file. Even so, most of us aren't quite ready to throw in the towel and become idlers. Fortunately, there are more practical (and better-paying) alternatives. To avoid the worst flaws of today's big-business model, try injecting one of the following levels of entrepreneurial participation into the picture.

The cooperative model. Credit unions around the world have successfully used this approach. I've worked with this industry for more than a decade and know its players well. Their roots are very entrepreneurial, and they want things to stay that way. The first credit union in the United States was formed in New Hampshire in 1909. The movement, as it's called, has since grown to 9,500 independent, mostly small institutions with more than $520 billion in assets, serving eighty-three million satisfied customers. Here's the magic: Local members are the owners, the customers, and the employees of each credit union. The members elect, from their ranks, a revolving volunteer board that has the power to hire and fire the CEO.

This arrangement produces some pretty interesting results. For starters, you can be sure that the customer/employee/owner group isn't going to pay its CEO 550 times what its own members make. Another is that for twenty straight years the credit-union industry has been rated No. 1 in customer satisfaction in the Gallup/*American Banker* annual survey of financial institutions. And perhaps the most important result is that industry employees, because they are also customers and owners, have a unique perspective on the importance of satisfying all the institution's stakeholders. Of course, the banking lobby says credit unions have an unfair advantage because they are not-for-profit and can charge lower rates. Hogwash. Their *real* advantage is that they don't have to put up with a $10-million-a-year CEO who would sell them down the river for another $50 million payday. (I'm not joking. CEO buyouts in big mergers and acquisitions have skyrocketed to the $50 million to $150 million range!)

The family-run business. In a myth-busting cover story in 2003, *Business Week* proclaimed: "Surprise! One-third of the S&P 500 companies have founding families involved in management. . . . And, in what may be Corporate America's biggest and best-kept secret,

Family-run businesses engender higher levels of loyalty among employees.

they're beating the pants off their nonfamily-run rivals." Are they ever! Annual profit growth at S&P 500 family-run enterprises over the preceding ten years was a robust 21.1 percent, while nonfamily companies lagged behind at 12.6 percent. Annual revenue growth is even more dramatic: Family-run companies averaged 23.4 percent growth, while their nonfamily counterparts grew at just 10.8 percent. And we're not talking about Silicon Valley start-ups no one has ever heard of. These are great American enterprises, old and new, like Walgreens, Wrigley, Nike, McGraw-Hill, FedEx, Anheuser-Busch, Wal-Mart, Microsoft, and Dell.

What makes the family-run model outperform the hired-hand model? "In part, it's having managers with a passion for the enterprise that goes far beyond that of any hired executives, no matter how much they are paid," said *BW*. Beyond the passion, family-run businesses focus more on their core businesses, they make decisions much faster, they reinvest much more heavily for long-term organic growth, and they have large personal and financial stakes in the ongoing health of the enterprise. For all these reasons, family-run businesses engender higher levels of loyalty among employees. Obviously, it's not a perfect world, and a family-run business can run into trouble too. But my own sense is that, after spending considerable time in such companies, there really *is* a different feeling from what you get at other places where employees don't know from one year to the next who the owners will be, what the new strategy will be, and what role, if any, they'll be expected to play in it all.

The employee-owned company. The National Center for Employee Ownership, which monitors all forms of programs (ESOPs, options, 401[k]s, etc.) says the research is crystal clear: Companies with significant employee stock ownership grow 2 to 3 percent faster per year than similar companies with little or no employee ownership. The cumulative result of such an advantage is enormous: Over a decade, the company with employee owners would be a third larger than its counterpart with no employee owners. So there's no mystery as to whether employee ownership is a plus. The only mystery is why so many businesses still don't encourage it. A whopping 77 percent of all employees in America own no stock in their companies.

Doing it right, by having an ownership culture where employees self-manage their own piece of the business and have a significant economic stake in the overall enterprise, can make a huge difference. But doing it wrong, by merely adding a few symbolic shares to the 401(k) each year, can actually have a negative effect.

One company that's been doing it right for five decades is W.L. Gore & Associates, the producers of Gore-Tex and other products. With $1.5 billion in revenue and six thousand employees, it is one of the world's largest employee-owned companies. Annually, employees receive 15 percent of their compensation in company stock. The employees now own well over 50 percent of the company, with the Gore family being the minority shareholder. Gore works hard at maintaining its "ownership culture" (no bosses, the same "associate" title for all, no division with more than two hundred people, etc.), and the results have paid off. The company is most proud of its unparalleled recognition as a great place to work. Year after year, it's been named to *Fortune*'s list of the country's "100 Best Companies to Work For." This year, it's ranked second among all companies and first among midsized organizations. London's *Sunday Times* has also ranked Gore the best place to work in the United Kingdom the last two years. (The company has had similar awards in Germany and Italy.)

The "free agent" route. If all else fails, you can always start your own business—or perhaps form a partnership with a couple of like-minded associates. You'll be in good company. Of the next hundred people you see at work, seventy are dreaming about someday starting their own business. About fifteen of them will give it a go over the next several years. And five will be successful on their first try. Here's a tip to raise your odds. Ask yourself these three critical questions: (1) What do I like to do? (2) What am I good at doing? and (3) What unmet needs do I see in the marketplace? Picking a product/market business based on your careful answers to these questions will dramatically improve your chances as an entrepreneur—and could change your life forever. At minimum, doing something you love, and something you're really good at, and something the world really needs has to beat becoming an idler. ♦