WE THE OWNERS

EMPLOYEES EXPANDING THE AMERICAN DREAM

LESSON PLAN: VOLUME I
***WE THE OWNERS: EMPLOYEES EXPANDING THE AMERICAN DREAM*:**
A GUIDE FOR PROFESSORS FOR MBA CLASSES: QUESTIONS AND RESOURCES

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1. In the film, *We the Owners*, the managers and employees of three privately-held companies with meaningful employee ownership, DPR Construction (2,729 employees), New Belgium Brewing (435 employees), and Namasté Solar (100 employees), are featured as they operate their companies. DPR's employee ownership is structured using Phantom Stock, New Belgium Brewing is structured as a leveraged Employee Stock Ownership Plan (ESOP), and Namasté Solar is a worker cooperative. (See the Further Information and Definitions below for resources to answer these questions.)
    a. What are the main features of each type of equity compensation (and others such as stock options, restricted stock) and how does each type work?
    b. What are the advantages and disadvantages of each format of equity compensation for initially setting up a business and operating a business through its various stages?
2. The founders and employees of these three companies describe that being owned by its employees closely links business risk and rewards.
    a. What are the different risks and rewards in the case of each company for the founding shareholders and for the worker-owners? For example, consider the problem of dilution with phantom stock plans. Consider differences when rewards are received through retirement programs versus stock and/or stock options.
    b. How does the source of financing used for each company impact the decision to start up this type of company?
    c. If you were a bank loan officer, would you loan money to each company if they could supply a business plan proving the loan could be repaid? Why and why not?
3. Each company has a different approach to employee participation in company decisions and problem-solving, how much information employees have access to, and the role of executive management.
    a. Contrast the approaches of each of the three companies and discuss the advantages and disadvantages of each.
    b. Discuss individual and team responsibilities and how those may lead to different practices for addressing conflict?
    c. What is the role of executive management in each company? Consider the level of control assumed by executive management in each case.

    d. What company approach do you think would work best for you in an enterprise that you would found or operate and could be used for large sectors of the population?
4. The film argues that a supportive corporate culture is necessary for employee ownership to be effective, asserting that owners need tools in order to affect outcomes.
    a. Do you think that shares of equity and profits over and above fixed salaries are necessary to motivate employees?
    b. What are the critical aspects of such a corporate culture in your opinion?
    c. What counter-arguments exist suggesting that broad-based employee ownership and profit sharing will not work? What arguments suggest these will not inevitably lead to a strong ownership culture?
    d. What arguments do the executives of each company make for building a high performance corporate culture?
5. The film presents footage from Occupy rallies and the employee/expert perspective on a pervasive feeling around the country that change needs to be underway in the business world: a change in the way businesses are operated and a change that would allow every worker to benefit from the intellectual and sweat equity of the entire workforce.
    a. With that in mind, what are the larger implications of the film?
    b. Is there a case to be made for employee shares to play a significant role in a nation’s response to flat wages, the concentration of wealth, economic inequality, and creating a better framework for a democracy to work?
    c. What are the counter-arguments that shares have little to no relevance at the national level?

DEFINITIONS

DILUTION. Dilution of stock in a corporation means that both *the percentage of the company owned* and *the right to any increase in value of the corporation* of current shareholders is diluted (watered down) if the board of directors issues new shares to employees as rewards. For example, in a company with 100 shares, if original shareholders x, y, and z own 100% of the company, if the board were to issue 100 new shares as rewards to all employees, then x, y., and z shareholder would own 50% (100 of 200 shares now) of the company and have access to less of the value of the increase of the company. When phantom stock is used, the original shareholders do not lose their actual equity or percentage of ownership, but they do share with employees the annual equity increase based on the profitability of the company. That increase is typically computed based on hiring a private valuation company. Entrepreneurs such as the founders of Google who originally owned 100% of their firm, granted employee stock or stock options. They typically grant newly issued shares to employees because they believed the ownership would help recruit employees and reward them for effort and innovation and that the firm would be more valuable than if it remained 100% owned by a small group. The idea these entrepreneurs had is that they would own a smaller percentage of a potentially larger pie.

(Adapted from http://www.investopedia.com/terms/d/dilution.asp#axzz2KnpKQdPQ and DPR's description of phantom stock at http://www.dpr.com/company/careers/working-at-dpr/benefits#phantomstock)

LEVERAGED EMPLOYEE STOCK OWNERSHIP PLAN (ESOP). A privately-held corporation can sell a large block of stock to the employees in one transaction. First, the firm's stock is valued by an independent appraiser. Second, the company sets up an Employee Stock Ownership Trust which borrows funds to acquire the stock of the company on behalf of the employees. In the case of New Belgium, the loan involved a note from the founders who wanted to sell part of their share to the employees in order to cash out some of the founders' value. Third, the company pays back the loan over some years and distributes the shares to employees as the principal is paid down. There are Federal tax incentives which make the ESOP contributions (the principal payments on the loan as well as interest) tax deductible to the corporation. ESOPs are regulated by ERISA (Employee Retirement Income Security Act of 1974) on employee fairness issues and the U.S. Internal Revenue Service on the acceptability of the deductions. Stock through an ESOP is not bought by individual employees with either their wages or savings, rather it is financed based on a loan to the company for which the company itself is collateral and which the company pays back to the lender. (Adapted from http://www.esopassociation.org/explore/how-esops-work/learn-about-esops)

PHANTOM STOCK. In a privately-held corporation, the corporation's owners can share the value of the stock without actually granting the stock or equity itself. Phantom stock is simply a promise to pay a bonus in the form of the equivalent of either the value of the company shares or the increase in that value over a period of time. These payments are usually made on a fixed predetermined date. Phantom stock requires no investment of an employee's wages or savings, and is not bought by the employee. (Adapted from http://www.nceo.org/articles/phantom-stock-appreciation-rights-sars)

WORKER COOPERATIVE. A worker cooperative is a business that is owned and controlled by its workers. Workers invest their savings to buy a share in the business and own it. The decision-making is democratic with each worker having one vote no matter how much of a financial share they own. (Adapted from http://usworker.coop/aboutworkercoops)

USEFUL RESOURCES

See the Fact Sheets on ESOPs, Phantom Shares, Worker Coops and other resources at:

www.wetheowners.com

http://www.newbelgium.com/

http://www.namastesolar.com/

http://www.dpr.com

http://www.caseplace.org/d.asp?d=4665 - Curriculum Library on Employee Ownership (CLEO) for articles, cases and videos.

www.esopassociation.org/ - National association of ESOP corporations.

www.nceo.org/ - Non-profit with research and information on worker ownership.

The Citizen's Share. A book on employee ownership and profit sharing by Joseph Blasi of Rutgers, Richard Freeman of Harvard, and Douglas Kruse of Rutgers. New Haven: Yale University Press, 2013 at www.thecitizensshare.com Chapter 1 discusses the American economic history of the share idea. Chapter 5 summarizes the empirical research on the impact of shares on firm performance.

Research fellowships to study employee ownership for graduate students and emerging scholars: http://smlr.rutgers.edu/research-and-centers/fellowship-programs