



# Creating an Employee Ownership Culture

A practical guide to leading your small business

The First Seven Pages

# Executive Summary

An enthusiastic team working toward common goals and sharing the resulting success is both fun and incredibly rewarding. Most small business owners want it. Very few have it. Why?

We can't blame a lack of successful examples. Open book management, profit sharing, and employee ownership have helped generate team success for over a century. What keeps them from being widely adopted by today's small businesses?

At Cargas, we believe there are two reasons. First, you don't have time to wade through the overwhelming possibilities to find solutions that are simple and practical enough for your small company. Second, if the added team enthusiasm means greater success for all, you are certainly willing to share more with your employees – information as well as financial results. But you have an uneasy feeling about making it really work in your company.

That's where this toolkit comes in.

The Cargas Plan™ Toolkit is a practical guide to help you create an employee ownership culture in your company. It's based on our actual programs we use at Cargas. It builds on fundamental concepts that great people have developed over 100-plus years, but is tailored for a small, team-oriented company in today's world of e-mail, mobile workers, short attention spans, and nimble business thinking. All aspects of the plan work together to build employee involvement, teamwork, and shared success. We include concise explanations and plenty of template documents and examples so you can really picture in your mind how this works. This plan can help you to:

- Clearly and simply explain your purpose, core values, and strategy to inspire your employees
- Collaboratively establish simple and relevant qualitative and quantitative goals at the company, department and individual levels
- Communicate goals and results in a way that generates enthusiasm
- Share profits in a way that is easy to understand, easy to administer, and really motivates
- Get more employees thinking and acting like owners by letting them become owners
- Allow major shareholders to cash out over time while participating in the continued growth in value of the company

We've invested 15 years developing and refining this plan. Now we work hard, have fun, and take great pride in sharing success together. We want the same for you.

# Overview

## The Vision

Does your vision for your company include any or all of the following? You are able to attract, motivate, and keep dedicated, team-oriented employees who think and act like owners. Your team is focused on delivering superior value to your customers, and views individual and company financial success as a result of helping your customers succeed. Your people understand how their individual and team or department performance is measured and how that affects the profitability and the stock value of the company. Your employees have meaningful ways to suggest and make improvements.

When company financial performance is above average, all employees share in significant cash rewards. All employees who want to may become shareholders, and share in the long-term growth in value and distribution of profits that they have helped to create. Top contributors and key recruits have special opportunities for ownership that are tailored to their individual situations and interest level. All shareholders, including founders and major shareholders, can sell stock when they choose and “cash out” some or all of their gains. Your company has become a leader in satisfied customers, enthusiastic employees, and growth in value.

This is our vision at Cargas. We haven't reached perfection in realizing our vision, but we get closer every year. We invite you to take the components of our program that fit your vision, tailor them to your needs, and enjoy the shared success that comes from an employee ownership culture.

## How the Components Work Together

In addition to this section on The Big Picture, the toolkit is divided into four main sections – Teamwork, Profit Sharing Plan, Stock Purchase Plan, and Incentive Stock Option Plan. The Teamwork section describes how to get your employees enthused, focused, and working as a team; the other three sections cover specific plans for sharing the resulting success, which of course encourages more enthusiasm, focus, and teamwork.

The Teamwork section focuses on teaching your employees the essence and key drivers of your business success, and engaging them to work together with creativity and enthusiasm to increase that success. It inspires with the lofty: purpose, core values, strategy and qualitative goals. And it drives results with the specific: coordinated quantitative goals at the company, department, and individual levels, or whatever levels you have in your organization. It explains how to communicate quickly and effectively with a diverse, on-the-move workforce.

The Profit Sharing Plan section describes a deceptively simple and elegant approach to giving your employees a short-term stake in the team results they help to create. Why would you want to share 20% of your profits with your employees? Because when the whole system is working properly, the added enthusiasm and focus will not only generate more money for the employees, it will increase customer care and generate more money for the owners. It's really a win-win-win.

The Stock Purchase Plan and Incentive Stock Option Plan sections describe a meaningful and relatively simple approach to giving your employees a long-term stake in the team results they help to create. The psychological value of even a small ownership stake is huge. People take great pride in the house they own, much more so than the house they rent. The same is true for the business owners. It's true for you, isn't it?

The foundation for all of this is trust. Employees need to trust management. The only way for that to happen is to be consistently honest over an extended period of time. Management needs to trust employees. After all, if you want your employees enthusiastically engaged in your business, they need to understand the relationships between goals, sales, costs, profits, profit sharing, stock value, and dividends or distributions. This may take time but in the end, a cohesive and energized team will outperform a typical superstar-based organization. We see it in sports – it's also true in business.

This toolkit includes concise theory with abundant examples and template documents. We don't want to inundate you with theory. We do want you to envision our simple and focused plan actually working in your company. For a broader perspective on open book management, bonus plans, profit sharing, and employee ownership, check out these excellent resources:

- The Great Game of Business: [www.greatgame.com](http://www.greatgame.com)
- Beyster Institute for Entrepreneurial Employee Ownership: [www.beysterinstitute.org](http://www.beysterinstitute.org)
- The National Center for Employee Ownership: [www.nceo.org](http://www.nceo.org)
- Scanlon Leadership Network: [www.scanlonleader.org](http://www.scanlonleader.org)

## Teamwork

The Cargas approach to Teamwork combines the lofty and the specific. A clearly articulated company purpose and core values – ones that you really believe and live – will inspire the best employees. Specific, relevant, and easy-to-understand goals and feedback will keep everyone focused. Communication, collaboration, and trust will grease the wheels of success. You engage your employees when you create clarity about who you are, what you are trying to achieve, and how you are doing.

Key concepts include:

- Purpose and Core Values – articulated simply, memorably, and repeatedly so they resonate with employees. The basic concepts should be somewhat timeless.
- Simple, Relevant Goals – that people can understand and affect. Coordinated so that company, department, and individual goals all make sense individually and together. Typically work on a yearly cycle.
- Purpose, Core Values, and Goals One-Pager – referred to often, it balances the focus between the lofty and the specific. If it's sufficiently meaningful, most employees will hang it in their work area without being told.
- Collaborative Decision-Making – generate better ideas and build understanding and commitment before new directions are finalized. Use a succession of one-page draft documents, brief employee meeting discussions, one-on-one conversations, and quick e-mails seeking feedback.
- Results – communicate results versus goals through quick updates at monthly employee meetings, monthly e-mail updates to all employees, weekly or bi-weekly team communications, topical e-mails, and one-on-one conversations. Educate as necessary as you go.
- Repetition, Repetition, Repetition – of the focal points: purpose, core values, goals, and results.
- Great Employees – hire and keep talented and enthusiastic employees. Help people with less-than-stellar performance or attitudes to either improve or move on.
- Celebrations and Appreciation – celebrate individual and team successes together. Thank each other. Make it fun.
- Honesty – a close match between what you think, say, write, and do – the only way to build trust.

Please refer to the separate Teamwork section of this binder for more details on the Cargas approach and template documents.

## **Profit Sharing Plan**

The Cargas Profit Sharing Plan is broad-based; it applies to all full-time employees. If you hire the right people and give them the necessary information and opportunity to contribute, they will each earn thousands of dollars in profit sharing while increasing customer care and company profitability.

Key concepts include:

- 6-Month Profit Sharing Period – with payouts scheduled twice per year, the profit sharing periods are long enough to discourage people from confusing profit sharing with base salaries, but short enough to encourage high interest.
- Simplicity – the profit sharing pool is a fixed percentage of the company’s net profits before taxes, so everyone can easily understand how it works.
- Formula-Based Allocation –the profit sharing pool is allocated to individuals by formula, not by management discretion, making it easy to administer and communicate.
- Openness – information is published monthly on the amount accrued in total and by individual, which encourages open team discussions and helps build enthusiasm.
- Teamwork – structured so that teamwork is rewarded; no one gets profit sharing unless the team is successful.

Please refer to the separate Profit Sharing Plan section of this binder for more details on the standard plan, plan design alternatives, employee communications guidelines, and template documents.

## Stock Purchase Plan

The Cargas Stock Purchase Plan is broad-based; it applies to all full-time employees. It provides a semi-annual opportunity to purchase shares of company stock. It creates opportunities for significant long-term equity growth and quarterly dividends or distributions based on the success that the employees themselves have helped to create. By having the Stock Purchase Plan open to all full-time employees, you can openly discuss relationships between goals, profits, stock value, and dividends or distributions, and give everyone an opportunity to be part of the action.

The psychological value of even a small investment is huge. Employees think differently when they are more than employees – they are also owners. They think and act like owners.

Key concepts include:

- Semi-annual Opportunity – provides predictable opportunities for employees to increase their ownership of the company.
- Timing Coordinated with Profit Sharing Plan – the opportunity to buy stock is timed to be shortly after a scheduled profit sharing payment.
- Payroll Deduction Available – making it easier to invest
- Realistic Value – the value of the stock is established by the board of directors based on an independent appraisal.
- Company Right to Buy Back Stock – if an employee leaves the company or a shareholder desires to sell stock to anyone other than another employee, the company has the right to buy the stock at the then current value, which helps keep ownership limited to those who are closely tied to the company's success.
- Works for an S-Corporation – which helps make the plan workable for many small, privately owned companies.

Money raised from the Stock Purchase Plan can be used for a variety of purposes including buying back stock from shareholders who desire to sell some of their stock. This might include a founder turning some “sweat equity” into cash, or a major shareholder realizing some gains.

We recommend that you get the Teamwork and Profit Sharing Plan or their equivalents working fairly well before opening up true employee ownership opportunities.

Please refer to the separate Stock Purchase Plan section of this binder for more details on the standard plan, plan design alternatives, employee communications guidelines, and template documents.

## **Incentive Stock Option Plan**

The Cargas Incentive Stock Option Plan is selective; it applies to employees at any level who have contributed significantly over an extended period of time, and occasionally to outstanding job candidates.

It uses most of the conventions of plans used by public companies, but has features that make it suitable for use by privately owned companies. It meets the IRS requirements so that it can offer significant tax advantages to the employees. A grant of Incentive Stock Options gives an employee the right to purchase shares of company stock in the future, but locks in the purchase price at today's value. By having 20% vesting per year for 5 years, it can provide a strong incentive for employees to stick with the company.

Incentive Stock Options can be used as a powerful recruiting tool for a talented job candidate who shows a strong interest in sharing in the growth of company value over the years. The holder of Incentive Stock Options can share in the equity growth for up to ten years without investing any cash. This makes it attractive to employees, whether or not they have the financial resources to purchase stock in the short run.

Incentive Stock Options are equally powerful in motivating and rewarding employees at various stages in their careers with the company.

The Incentive Stock Option Plan uses many of the key concepts that apply to the Stock Purchase Plan, including realistic value, company right to buy back stock, and works for an S-Corporation.

We recommend that you get the Teamwork and Profit Sharing Plan or their equivalents working fairly well before opening up true employee ownership opportunities.

Please refer to the separate Incentive Stock Option Plan section of this binder for more details on the standard plan, plan design alternatives, employee communications guidelines, and template documents.

# Cargas Plan™ Toolkit

## Mail Orders:

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Items are normally shipped UPS - Ground (see FedEx option below) .

## Fax Orders:

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