

Destined to be an ESOP

A Case Study on ESOP Employee Communications

If there ever was an effective way to engage employees, it is by implementing an ESOP (Employee Stock Ownership Program). This model allows employees to take part ownership – for better or for worse – in the company they work for. With it, a new level of urgency and regard for the welfare of the organization can bring extraordinary results, including significant improvements to the bottom line.

As you will learn in this real world example, an internal communications solution and an ESOP work hand-in-hand to bring success and prosperity to every member of the team.

Dotson Iron Castings' former CEO, Denny Dotson, made a commitment to employee communications excellence long before he converted his family's business to an ESOP in 2012. While many ESOPs may need to enhance their internal communications and employee engagement following the formation of the ESOP, Dotson did it in reverse. He began with internal communications and employee engagement.

Dotson's employee engagement journey started thirty years ago when, in 1981, the agricultural and energy markets collapsed. "At the bottom of that economic trough, our sales were only 20% of what they were in 1980. Survival was the only thing on our mind. I was very fortunate to realize that I needed to lead the company back to profitability and that the strength of the company was in its employees. We asked the union for a wage concession, and they quickly responded by saying, 'You only tell us what the profits are when there aren't any.' They believed that we had two sets of books and voted overwhelming to reject any concessions."

The employees were correct – Dotson had not communicated with them. Employees had no real understanding of the severe financial situation (although they were not correct on the two sets of books). Denny started weekly communication sessions and three months later was able to unilaterally cut wages from \$11.25 per hour to \$5.75 per hour. His message was simple. "You are worth the full wage, but we cannot pay it. We will however, keep track of the difference and pay it back with interest if we survive." Every employee showed up for work the following Monday. The rest, as they say, is history.

The Dotson Foundry has finished over twenty consecutive years of profitability.

Communication has been a high priority ever since for Dotson.

It was as though the company was destined to be an ESOP all along.

It is not surprising. Dotson's vision for transparency, a positive culture, employee involvement and more importantly – empowerment – has been present for over thirty years.

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Better Companies through Better Communication.

The environment at Dotson today is this. Communication is constant – by shift, by day using an enterprise-wide communication system that Dotson created, patented and launched as an offshoot business in 2008. The Dotson team enjoys regular and open communication, and uses tools specifically designed to share information, engage employees, and improve performance – all while measuring the success of their communication efforts.

The tools are that of PDP, People Driven Performance (www.pdpsolutions.com), an employee communications company founded by Dotson. The tools provide for regular news feeds that share information on each employee, both business and personal. PDP's powerful Score feature allows the company to share metrics across the enterprise in an interactive digital display that drives understanding easily. An kiosk-based module means non-desk employees are included in information sharing. Dotson leverages the Score tool to share over 70 metrics with all employees.

They say you can't manage what you don't measure, an axiom the Dotson company takes to heart. Performance metrics are shared particularly with the front line as well as all employees. Posted daily metrics include among others:

- on time delivery
- the cause(s) of late deliveries
- production by mold line
- rejects
- internal defects
- safety statistics

The Dotson Foundry has finished over twenty consecutive years of profitability. Without question, Denny attributes this success to their employee engagement and empowerment efforts. Two specific years stand out in particular— 2001 and again in 2009, when sales dropped significantly, the Dotson Foundry was able to remain profitable without major layoffs.

Denny's sense today is this. "If manufacturing in the United States is to survive the challenges of globalization, it will be because workers and leaders are personally engaged, empowered as teams, and aligned around a strategy that revolutionizes the shop floor. While the revolution to survive must be inspired by leaders, it will only happen when front line employees are individually excited about contributing to customer success. Our leadership challenge is to take our companies from boring to exciting. To make this happen, employees must be personally engaged in the company's success; empowered as teams to make a difference; and aligned to the vision."

So what does this ESOP company do differently? Here are eight key areas that guide how they operate:

1 Seek Expert Support.

Dotson Iron Castings regularly uses the services of its state's office of the Manufacturing Extension Partnership (MEP; www.nist.gov/mep/), a public/private partnership that provides training, tools, and connections to help companies accelerate innovation. There are sixty such MEP centers located throughout the states.

2 Engage all Employees.

Dotson also takes ideas from everywhere. Bob Kelleher, one of the thought leaders for employee engagement, visited their foundry and described engagement in his book *Louder Than Words* as a "journey without a destination."

3 Engagement Starts at the Top.

The CEO and the company leaders must own their culture. It is not something that can be delegated. If the organization's culture is not owned actively by the people at the top of the organization, others in the organization will step into the void to define and control it. As you recognize the need to own your culture, there are two excellent books to help you determine what your culture should be. The first is Jim Collins' *Good to Great* and the second is Stephen M. R. Covey's *Speed of Trust*. These two books provided the foundation for Dotson's first effort to make significant updates to the company's core values in more than twenty years. To own these values also means that the leadership team needs to accept and encourage others in the organization to hold the leadership team accountable for each of the values and to challenge others when they are not living the spirit of those values. Their new values are:

- Integrity, openness, honesty
- Respect for, and the service of others
- Excellent execution
- Personal accountability
- Employee empowerment
- Celebration of successes

4 Engage Front-Line Leaders.

The typical CEO has five to eight direct reports and everyone else has another manager to whom they report. The individual's manager has overwhelming influence on the engagement level. This is even truer on the disengagement side. According to a 2009 Sirota Survey, disengaged managers are three times more likely to have disengaged direct reports than managers who are not disengaged. Problems often surface, however, because many supervisors have been in their positions for many years, and this whole engagement thing (the softer side of management) is new to them. A good tool to start conversations with long-time employees is to use 360-degree evaluations. A second comes from Bob Kelleher's leadership summary.

Needs a Leader Must Fill	
Authority	Someone's in charge.
Security	Things will probably turn out OK.
Direction	Someone knows where we're going.
Vision	We know where we're going.
Structure	Everyone knows where they fit in.
Clarity	Someone tells us what's expected of us.
Role Model	We have someone to look up to.
Reassurance	Someone's looking after us.
Cohesion	We're all singing from the same song sheet.
Inspiration	We feel good about what we're doing.
Recognition	What I do matters.

Group culture is hard to change, but from Dotson's experience, it is often easier to change a group than an individual. If a team member's personal values need more than modest tweaking to align with the organization's values, it might be preferable for everyone to agree on a severance package.

5 Communication: The Cornerstone.

Another best practice is to remember that communication must be "7 times in 7 different ways." The seven ways could be face-to-face, at a shift meeting, in a memo, from a CEO session, weekly newspaper or perhaps front line to front line.

It is also important to realize the responsibility for making sure the message is received lies with the individual sending the message.

At Dotson, they use the standard meetings (shift, monthly, and quarterly meetings) along with many different committees. In addition, they use PDP's communication platform that is delivered via touch screen kiosks throughout the plant.

The weekly digital newspaper (pictured below) includes a mix of current happenings, new employee and visitor welcome articles, human interest stories, technical information, and teachable moments, such as comments on a safety incident.



This story page provides a teachable moment on a recent safety incident.

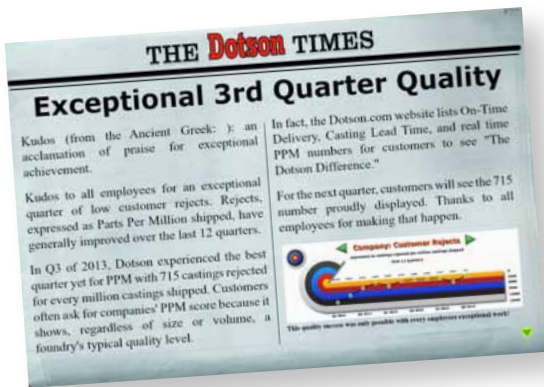
Weekly digital newspapers are presented on touchscreen kiosks throughout the plant as well as on individual PCs.



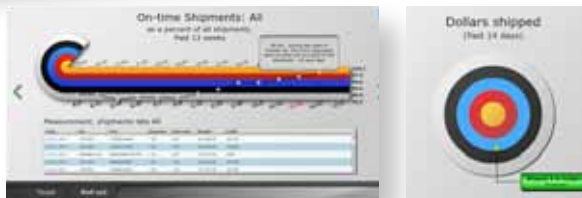
6 Track and Communicate Progress and Success.

According to the *Harvard Business Review* article on motivation, people are most engaged when they are making progress. But where are we going? Once you have engaged employees and you have empowered them, it is essential that all the teams are aligned. Once the strategy is defined there needs to be regular reports regarding goals.

Dotson uses the shop floor touch screen kiosks to visually show progress against goals (below). The advantage of the touch screens is that with a single touch, different time periods of the data can be displayed along with relevant items such as specific late shipments for the period.



Shop floor touch screens display metrics for sharing results.



Company performance metrics are displayed via the Score tool which automatically harvests data from Dotson's systems.



7 Hire and Promote Engaged Employees for your Culture.

As noted earlier, each leader and each organization must own the culture. No two companies are the same. When hiring, it is important to identify the applicant's personal core values and ensure that there is alignment with the company's core values. It is impossible for an individual to have values after work significantly different from values while at work.

8 Empower your Teams.

Hand-in-hand with engaging the individuals, the organization must empower teams to make decisions as a group. There are just two very simple rules in this regard: to ask and to listen. While they appear simple, they are very difficult in practice. Many times, results are not what you expected, which means that the leaders don't always get their way, but the level of team ownership in the decision increases the likelihood of success. It might be called "having skin in the game".

Today, every time the Dotson company spends more than \$10,000 for something new or for an upgrade to existing equipment or processes, they engage a team of employees who will be impacted by the purchase. The team will research, determine options, go on site visits if needed, set the payback expectations, and sign off that this is what they recommend. They use this same process for a \$10,000

purchase or a \$2,000,000 purchase. Dotson has completed over 149 such projects in the past fifteen years.



Dotson's signed \$10,000 project summary for a forklift purchase.

ABCs: Six-Point Approach to ESOP Employee Communications Excellence

ESOPs and their respective communications committees strive to share information across company lines. The goal is to engage employees and help them to understand their role in affecting continuous improvement. It is not an easy thing to do. PDP's tools and approach eases the process and measures its effectiveness.

	Standard	Using PDP
A Access		
Interactive		✓
Geared to non-desk employees		✓
Mold culture every day		✓
Digital delivery		✓
Connects distributed employees and plants or locations		✓
B Basics		
Regular communication	✓	✓
Frequent communication		✓
Inclusive of all staff levels	✓	✓
Engaging, comprehensive content shared		✓
C Content		
Simple Information		✓
Repeatable information	✓	✓
Measureable		✓
Human interests shared	✓	✓
Comprehensive communication across depts.	✓	✓
Content tracks create breadth of topics		✓
ESOP terms and definitions	✓	✓
Integrated news, employee directory and metrics		✓
D Drivers		
Share continuous improvement ideas/initiatives real time		✓
Sharing best business practices real time		✓
E Engagement		
Recognition tools	✓	✓
Teachable/Reachable moments supported		✓
Ends rumor mill immediately		✓
Appeals to all ages	✓	✓
F Finance (Metrics)		
Metrics on organizational performance		✓
Ease of understanding metrics		✓
Metrics on stock/company performance	✓	✓
Financial basics	✓	✓

Share Information. Engage Employees. Improve Performance. Measure Success.

To be a successful ESOP company, leaders have to bring their personal excitement to the company. According to Dotson, “We have to believe that there is a great future for our industry and our company. We have to define—in a way that inspires employees—the visions of our future. We have to own and live a culture that engages employees. We have to empower and align teams to our vision. And then, we have to let go. Our job at this point is to take down barriers, to recognize, encourage, and celebrate successes, and occasionally work out the necessary generous severance package for those out of sync.”

Do you need to improve your employee communication in order to create a rock solid ownership culture, to engage employees so that they understand their role in the ESOP to drive continuous improvement? Do you need to open the lines of communication in your organization and find a means to measure the effectiveness of your employee communications? If your answer is yes, PDP can help.

Contact us to learn more at www.pdpsolutions.com.