



Van Meter Industrial

Do you want your ESOP committee to hit the ground running? How soon can committee members start doing education and outreach? At Van Meter Industrial, no one asked these questions. Instead, the company took a careful, systematic approach to building the capacity of its ESOP committee.

Van Meter Industrial (VMI) is a distributor of electrical supplies headquartered in Cedar Rapids, Iowa. Founded in 1923, VMI is in its 15th year as an ESOP company and its third year as a 100% ESOP-owned S corporation. Over 300 people now work in the company's 13 locations, and they all have accomplishments to be proud of, from an article featuring their company in *The Wall Street Journal* (Feb. 7, 2008) to a 78% increase in the value of their shares between 2005 and 2006.

An Effective ESOP Committee

For the first half year after the ESOP committee formed, its 15 members read and re-read the legal documents that defined the ESOP. They attended off-site workshops and gathered for day-long internal meetings. They drafted their own bylaws and their mission statement. They reviewed examples (*"John starts full-time work at VMI on January 15, 2006. When does he become an ESOP participant? What if he was 19 when he started work?"*) and absorbed all the knowledge they could from their ESOP administration firm, which sent a representative to the committee's meetings for a year. From outside the committee, there was little evidence that it was doing anything.

An executive trained to look for measurable results might believe those six months were wasted time, but VMI saw it as investment in internal capacity—and that investment has paid off. The ESOP committee re-wrote the summary plan description, adding in company-appropriate examples and new explanations. They turned it into a presentation to use with new ESOP participants. They took over the job of presenting the annual report on the ESOP and distributing individual account statements. In short, they have become the face of the ESOP, and committee members are answering a "flood" of questions, according to the committee's president, Rod Reinertson. "And when we answer those questions, it builds our credibility and leads to even more questions."

In contrast, CFO Mick Slinger says, "I can't remember the last time I was asked a question about the ESOP." Does stepping back from presenting ESOP information save him time? "No," says Slinger. "It takes more of my time, but the one-on-one interaction with the members of the ESOP committee is a better use of my expertise. They are incredibly effective at communication."

To find out just how effective, VMI did an employee

survey. Ninety percent of employees agree that they "understand the ESOP idea," 80% "know approximately how much money [their] ESOP account is worth," and only 6% don't know "how to find answers to [their] questions about the ESOP." The results, impressive in their own right, far exceed the average scores in the NCEO's database of employee surveys. Slinger believes the results would have been nearly the opposite four years ago.

Translating Accounting into English

After building a base level of ESOP understanding, the ESOP committee believes the next step is to find ways for each employee to contribute to increasing the stock price. To do that, employee-owners need to understand something about valuation. The committee quickly realized that valuation analysis is long and complicated, so they looked for a way to translate the factors that drive value into easy-to-use terms. The result is the "your two cents worth" campaign, which the committee launched in 2005. Based on their current numbers and some simplifying assumptions, the campaign is built on a simple formula: improving VMI's bottom line by \$5,000 creates an expected increase of \$0.02 in the value of a VMI share.

This equation doesn't capture the complexity of the actual valuation process, but it does close the loop between each employee and the value of the company. It also makes for easy math to show what happens to the value of the stock if all employees do their own two cents worth, something that the ESOP committee emphasizes in monthly updates about operational improvements.

Don't Aim for Perfection

VMI's experience suggests that one key to an effective ESOP committee is to avoid the perfection trap. Members of the ESOP committee know their knowledge isn't perfect, and that the right answer to tough ESOP questions is often "I don't know." They also have ways to find answers, generally with a 24-hour turnaround. CFO Slinger also needed to let go of perfection. "I used to think, 'if I can't get everyone on board, it's not worth spending the time.' That was a big mistake." There are still cynics at Van Meter (5% of the company, according to the survey), but most employees believe it is on the right path.

In the words of an anonymous survey respondent, "Employee ownership is great, but if the employee owners do not understand what [it] means, that value is diminished. That is where the ESOP committee provides so much value—in helping educate everyone about employee ownership." ■

The NCEO offers a very well-tested employee survey for ESOP companies, with extensive comparative data to other companies. Contact Loren Rodgers (510-208-1307, lrodgers@nceo.org) for details.