Employee-Ownership Briefing Paper

Enron and Employee-Ownership

Talking Points

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Ownership Associates was founded in 1987 to provide consulting, communications, survey and organizational design services for employee-ownership companies.

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The collapse of the Enron corporation has left employees at ESOP companies asking themselves and their managers legitimate questions about the implications of the Enron bankruptcy.

Today the future of employee ownership, and its credibility as an idea in the eyes of employee owners, rests not only on legislators' response to the crisis, but on how managers in individual employee ownership companies respond to employees' questions and concerns. This paper provides talking points for discussing the Enron collapse.

Unusual company: First, Enron is a highly *a*typical employee ownership company. It does not represent the "normal" ESOP firm, and it differs in important ways from this firm in particular.

Unusual finances: A major factor leading to the collapse was the company's overstating earnings by $600 million to its employees and outside investors. Unusual partnerships hid hundreds of millions of dollars in debt. Complicated deals served to inflate the company's financial figures.

In contrast, our company (like most ESOP companies) rests its

- finances on accepted, conservative, accounting practices;
- revenue base on the production of tested products and/or services (not the speculative trading and energy projects that Enron pursued).

Risk and Reward: The truth, though, is that ownership of stock in a company *always* entails some risk, as well as reward. The two go hand-in-hand. Along with the rewards of reaping the potential gains of ownership, there is a corresponding risk. There is no getting around the fact that an ESOP does represent a concentrated investment.

ESOPs in General: ESOPs have a 28-year long history of benefiting millions of working people.

- ESOP companies go bankrupt less often than non-ESOP companies.
- Most ESOP companies offer more diversified pension plans in addition to the ESOP.
- ESOP firms seem to provide their employees significantly higher rewards than similar non-ESOP firms, in terms of both wealth and wages.

Safety Hatches: The law—and common sense—suggest some simple ways for ESOP participants to diversify risk and protect themselves. The can:

- Participate in any additional retirement plans offered by this company. If their company does not offer an additional retirement plan, employees should invest in IRAs, CDs, or other personal savings mechanisms.
- Diversify ESOP shares at age 55 (with 10 years of participation) as permitted by law.
- Learn about their ESOP and other pensions, and ask about company finances

More Info: For a summary of research, see: www.ownershipassociates.com/kruse.html

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