CHAPTER 25

BUILDING LONG-TERM VALUE: DEVELOPING A HIGH-PERFORMANCE OWNERSHIP CULTURE

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25.1 **The Opportunity**

An ESOP can be an effective tax-advantaged means of creating shareholder liquidity. At the same time, the ESOP provides an additional benefit for employees. But the ongoing payoff of the ESOP is based on its ability to align stakeholder interests. The ESOP has the potential to be the foundation for long-term growth in company value that will benefit all shareholders.

By linking employee, company, and shareholder interests, ESOPs provide a unique opportunity to leverage performance improvements that will benefit all parties. Research investigating the link between employee stock ownership and corporate performance consistently has shown that ESOP companies outperform their non-employee-owned counterparts on a wide variety of performance measures (see Chapter 2 for a thorough review of this research). However, the link between stock owner-ship and performance is far from automatic. Unless an ESOP is implemented as the logical next step in a company that already emphasizes employee involvement and empowerment, building a high-performance ownership culture may involve a fundamental change in an organization's culture. To truly take full advantage of the performance-enhancing opportunity of employee ownership, organizations must develop cultures in which people are actively encouraged, *not just expected*, to feel and act like co-owners.

25.2 **Why ESOPs Do Not Automatically Generate Motivation**

There are a number of reasons why the establishment of an ESOP doesn't automatically translate into ownership attitudes and behaviors:

- People's expectations may be unrealistic, varied, and incompatible, creating confusion and frustration if their concerns are not adequately addressed.
- People sometimes don't understand how the ESOP works, what it could be worth to them, and how they can affect the value of the stock in their ESOP accounts.
- An ESOP alone, because it is a retirement plan, may have less motivational power the farther away an employee is from senior management.
- Employees know that factors beyond their control can affect stock value and that the effect of their individual actions on company value may seem inconsequential compared to other factors.
- The future value of an employee's ESOP stock account is unknown.
- Younger employees may not yet be concerned with retirement.
- Companies may like the idea of employees "thinking and acting like owners," but company leaders may not provide the mechanisms and resources to:
- Give employees the knowledge and information they need to make informed decisions;
- Ensure that company managers treat employees like valued co-owners; and
- Provide employees with clear means of exercising ownership behaviors that can affect company performance and, ultimately, value.

It is only by developing an implementation plan that takes these issues into consideration that a company can maximize the long-term performance potential of its ESOP.

25.3 **Aligning Ownership Expectations**

The power of employee ownership—and one of the major challenges to generating ownership-based performance—lies in people's associations with the term "ownership." When an ESOP is implemented, employees at all levels of a company bring expectations about what "employee owner-ship" should mean.[1] Sometimes these expectations can be surprisingly consistent within status levels of a company. Managers may tend to focus on the responsibilities of ownership, while non-management employees emphasize the rights of ownership.[2]

[1] Managers' Ownership Expectations

Some managers may approach employee ownership as not any different than share ownership (like owning stock in any company). For others, employee ownership means employees should be willing to stay past 5 p.m. without any additional compensation, be particularly careful about wasting resources, and generally do whatever is necessary to keep the company successful. They may not want employees questioning management decisions or asking for financial information, and they may not be comfortable with the idea of giving people more financial information. For still other managers, employee ownership means providing employees with more information about the business and deeply involving them in problem solving and decision making.

[2] Non-Managers' Ownership Expectations

Some non-management employees may think that being an owner means they should be given more of the company's strategic and financial information. However, the specific information employees believe they should get may range from basic information such as projected and actual annual revenues and profit margins, to summarized profit and loss data, to specifics such as individual salaries. It is also common for employees to expect to have more voice in company decision making. Again, the specifics of this desire are usually different for different employees: some think employees should have seats on the board of directors, a rarity; some unrealistically expect to vote on every major decision made in the company or to determine everyone's salaries; others expect that their ideas for improving operations will be solicited and seriously considered; and still others just expect their direct supervisors to listen to their concerns. A few will fantasize that, as owners, they should set their own schedules and decide when and how to do their jobs. Some will expect to be able to tell everyone else what to do but will not expect to have to listen to anyone else. Finally, it is not unusual for employees to expect that being an owner means they can't be fired; after all, no one has the power to fire an owner.

Many employees' ownership expectations will center on money and fair and respectful treatment. Some hold a "big cars and fat cigars" image of company owners. If the ESOP wasn't communicated properly at the start, they may expect employee ownership to make them rich quickly, or they may even expect that at the end of every year any money in the company accounts will be divided up and handed out.

Regarding treatment, employees are well aware that people inside and outside a company generally treat owners with respect. As employee-owners, then, they expect respect from management and their peers as well as from vendors and customers. Employees may evaluate respectful treatment in terms of how managers talk to them, whether they are listened to, whether or not their concerns or ideas are taken seriously, whether their accomplishments are recognized and credited, and whether they are fairly compensated for their work. For some, employee ownership may suggest that everyone should get equal compensation, benefits, and voting rights, etc. For others, equity will seem reason-able.

Some of people's expectations about ownership are reasonable and useful in framing a company's implementation strategy, while others are unreasonable. In general, the specific behavioral elements of

[1] Vanderslice & Moss, 2000 (See ¶ 25.13).
[2] Mackin, 1996 (See ¶ 25.13).

these expectations, rather than the general categories of ownership expectations, are the sources of conflict and frustration, as well as opportunity.

[3] Defining Goals for the ESOP

The process of developing a high-performance ownership culture begins with defining expectations. To both benefit from the power of the ownership concept inherent in an ESOP and address the challenge of conflicting expectations, two actions are essential. First, company leaders must decide on the role they want employee ownership to play in shaping the company's culture, and as a result, driving the company's performance. Is the ESOP just an employee retirement benefit that happens to make employees beneficial shareholders? Is it expected to be a cornerstone for building the highest levels of employee performance? Or is it something in between? This is a critical decision. Every other action related to implementing the ESOP is defined by this initial decision. For example, a company's communication strategy should be consistent with leaders' expectations for the ESOP. If the ESOP is just another employee benefit, an initial explanation of the ESOP and an annual statement of individual account values may be enough. On the other hand, if the ESOP is expected to motivate performance, employee communications must be more frequent, more substantive, and more closely linked to the company's overall culture and performance strategy.

The second critical action is to articulate the specific behaviors that constitute "ownership" behaviors.

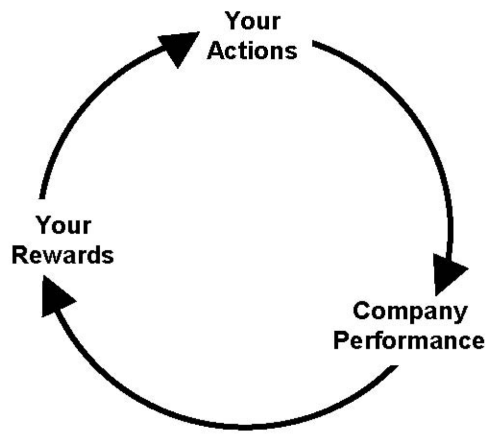
[4] Defining Expectations for Ownership Behaviors

Consistent with defining ESOP goals, clearly delineating ownership-related behavioral expectations will reduce tension, minimize frustration, and provide focus. Avoiding the term "owner," be-cause of the extreme and erroneous expectations some employees may associate with it, is like throwing out the baby with the bath water. In fact, all of the general categories of employees' ownership expectations are consistent with central components of high-performance companies: communication, participation, rewards in the form of recognition and performance-based incentives, and fair treatment by management. Defining, communicating, and supporting what these general ownership expectations mean in terms of specific actions by all employees will address the problem of misaligned expectations. Involving employees in spelling out specific behavioral expectations related to ownership will increase their level of commitment to those behaviors. The specific meaning of employee owner-ship in any individual company is often less important than having a company-wide understanding and acceptance of it.

25.4 **The Employee Ownership Performance Cycle**™

A model showing the relationship of employee stock ownership with increases in stock value provides a framework for determining key implementation activities. For stock ownership to be a motivational force, employees need to understand the links between their individual actions, the company's performance, and their individual rewards (see Exhibit 25-1). Each link in this model has a cognitive component that is activated by communication and education, and a structural component that represents participation or reward structures. These four factors—education, communication, participation, and rewards—also relate directly to the general categories of employees' ownership expectations described above.

EXHIBIT 25-1
The Employee Ownership Performance Cycle™



25.5 **Communication**

Communication plays a central role in creating a positive view of the ESOP and in establishing and maintaining a high-performance ownership culture (initial and ongoing communications issues are described in detail in Chapter 14). High-performance cultures are characterized by high levels of trust. Because open, honest communication is central to building and maintaining trust, companies need to pay particular attention to their communications processes. It is important to be sure that communication both flows *out from* management and *in to* management. Processes and practices that encourage employee input are discussed in more detail below (see Participation section in this chapter).

[1] Ongoing Communications

After an ESOP is introduced, it is important to keep communications flowing in the company. To strengthen the links in the Employee Ownership Performance Cycle™, employees should regularly be given information about their units' performance and the company's performance. The more quickly people receive feedback, the more they will be able to link their own actions with the performance results. In employees' minds, the link between individual behaviors and company performance will be considerably strengthened by identifying a few specific key performance measures that affect the bottom line, and reporting those measures regularly in a manner that shows how the way employees do their jobs affects the company's results.

The more that company information is communicated, the better. The only way people can know what effect their actions are having is to be given the results. As Jack Stack says, "How can players decide on their strategy if they don't know the score?"[3] Rather than giving out information on a need to know basis, information should be treated as a resource to be widely shared. Without open communications, facts are replaced by rumors, and misunderstandings grow.

Unfortunately, leaders of employee-owned companies too often believe that communicating the ESOP is the only major effort they will need to make: that once employees understand how their ESOP works, increased motivation will automatically follow. In fact, effectively communicating the ESOP plan details is only one step in the much more comprehensive effort required to develop a high-performance

[3] Stack, 1992 (See ¶ 25.13).

ownership culture.

25.6 **Education**

To maximize the effects of communication efforts, companies need to educate employees so that they know how to assess and apply the information that is being provided. An ownership education program should cover several basic topics in order to strengthen the link between the ESOP and performance.

[1] ESOP Education

Giving employees a clear understanding of how an ESOP works will require a more in-depth explanation than is possible when first introducing the ESOP. A comprehensive program can clarify employees' understanding of the links between their behavior, company performance, and the value of the stock in their accounts. Because it will contribute to employees' reasons for wanting to make performance improvements, this understanding is an important first step in the ownership-performance cycle.

[2] Business Literacy

Owners know how their businesses work. They also know how to read, understand, and use financial information to make decisions. This is not necessarily the knowledge that employees have, but business literacy is knowledge they need if they are expected to act like owners. Showing people summarized profit and loss statements or sharing the percentage change in revenues frequently will not be enough to stimulate motivation. Company leaders who believe they have taken a big step for-ward when they hand out the company's P&L or balance sheet may be frustrated to see some people drop these reports unceremoniously in the "circular file." In these cases, rather than concluding that employees just are not interested, take the view that they don't understand what they're looking at or why.

Without business literacy education, there is little reason to expect most employees to understand basic business concepts (e.g., how their company makes or loses money, or what the difference is between sales and profits, etc.), why various corporate decisions get made (e.g., how profits are used), how those decisions can affect company value, or what effect their individual actions have on financial performance. Without the knowledge that guides effective decision making, it is unreasonable to expect a large percentage of employees to act like responsible owners.

The Ownership-Performance Cycle indicates that employees need to know how their actions affect company performance, including which performance measures they can influence. They also need to know how performance influences the value of their ESOP accounts. This business and financial knowledge clarifies the links in the cycle, fueling motivation.

The specific business and financial information a company should consider teaching employees to interpret will depend on what numbers the company wants to improve. After employees learn some basic details about how the business works financially, business literacy education can focus their attention on a few key numbers and how each job affects those numbers. As the company changes its focus to other numbers, a new education module can be created. This approach gives people information in digestible sizes at a time when they can put the knowledge to use immediately.

[3] Skill Development

Skill development is the third component of a solid ownership education curriculum. Employees need the skills to act effectively on their ownership-related knowledge. Employees who are going to be involved in problem-solving teams may need to develop both group skills and problem-solving skills. Employees participating in committees may need communication skills and meeting-facilitation skills. Employees who become ESOP trustees or board members may need training about those responsibilities, as well as more detailed education about financial and/or strategic business decision making. Public speaking skills, oral and written English skills, and high school equivalency programs can all build employee self-confidence that will contribute to their being more effective participators.

[4] Leadership and Supervisory Development

A high-performance ownership culture often requires new leadership behaviors (e.g., encouraging employee participation, involving employees in goal setting, communicating progress, giving effective feedback, and developing coaching skills). Companies should be prepared to teach leaders and managers these skills. Unfortunately, it is common for leaders who previously have operated in an authoritarian style to either continue in that style or to abdicate their management role when they learn that giving orders is no longer acceptable. In addition to teaching management skills, leadership development programs can provide a forum in which to discuss the challenges of managing in a different environment.

Middle managers are often forgotten as companies try to develop ownership cultures. (Senior leaders buy in when they participate in planning sessions to define the new culture.) But middle managers often are just expected to get on board. In addition, they may be the employees who feel they have the most to lose (e.g., decision-making power and authority) and the least to gain in a culture change. However, in culture change efforts, it is the people to whom employees directly report that most affect their own behavior shifts. This means that supervisors can have a significant effect on a company's ability to shift its culture. Without training in participatory leadership and coaching skills, supervisors may resist changes and discourage the employees who report to them.

[5] Just-in-Time Training

Education programs are most effective when people are given information at the point when they will be able to use it. It may be prudent for companies to determine what information is basic and should be taught to everyone and what is more usefully taught at moments when the information or skills will be used. Education about the ESOP and how it works may fit the former category while group problem-solving skills may fit the latter. It often is better to design training modules that can be delivered as needed, rather than to plan a comprehensive education program that all employees will go through in lock-step fashion. This ensures that people will have the opportunity to use what they learn before they forget it.

25.7 **Participation**

[1] Participation and Performance in ESOP Companies

Research on employee ownership and performance has shown that companies that combine employee stock ownership with employee participation generate performance results that are better than those of comparable companies that have neither or only one of these factors (see Chapter 2 for a re-view of this research). Employee participation in ESOP companies serves two purposes. It can generate the payoff that comes from making better decisions, as indicated in the organizational literature,[4] and it fits with employee-owners' expectations of having more say in decisions. Participation is the structural means through which employees can use their skills and knowledge to improve performance. Being informed about performance indicators and understanding how job-related responsibilities can affect company performance is useful only if employees have an avenue for applying that knowledge to make improvements.

[2] Components of Effective Participation

[4] Lawler, 1986; Plunkett & Fournier, 1991 (See ¶ 25.13).

There are several components of effective employee participation: desire, opportunity, skills and knowledge. First, employees must *want* to participate. The act of participating—being involved in problem solving or decision making beyond their own jobs—can be intrinsically rewarding to employees. Ownership of company stock provides the potential for extrinsic rewards as well. In fact, employee participation makes more sense in companies in which employees are shareholders than in any other context. The additional thought and energy that is required from employees who share their ideas about how to improve any aspect of company performance can generate the direct reward of increased share value when the ideas work. Accordingly, once employees understand how they can benefit from being more involved, their motivation to participate should be greater.

[a] Informal Participation

Once people have a reason to want to participate, opportunities for participation become important. Through them, employee voices can be heard. These mechanisms can be formal or informal. Informal employee involvement means asking people for their ideas and input on a regular day-to-day basis as a standard management practice. Because encouraging involvement is a matter of management behavior, its success heavily depends on the orientation and skills of middle managers. To create a work environment in which employees feel that their opinions and knowledge are valued, managers must have a "participative mindset." When they are faced with decisions, managers who have that mindset will, as a matter of course, consider who should be involved in making the decisions. They will consider questions such as: Who is likely to have knowledge about some aspect of the is-sue? Who will have to implement any part of whatever decision is made, and who will be affected by it? Who will be held accountable for the effectiveness of this decision? And how quickly must the decision really be made? These managers generally believe that participation leads to better decisions, smoother implementation, and that it builds the capacity of the work group. In highly participative companies, people are regularly involved in making decisions about issues related to their own jobs, and supervisors solicit and pay attention to their input. Supervisors also provide people with the in-formation, resources, and skills they need to make as many decisions themselves as possible.

There are obvious problems that can derail informal employee-participation processes. Middle managers may lack the experience or skills needed to facilitate employee involvement. Or they may see employee involvement as usurping their power as managers, rather than enhancing it and making them look good as their unit's performance improves. As one CEO put it, "Middle managers have usually worked long and hard to gain their positions and the requisite authority that goes with them. Now we're telling them: 'Oh, by the way, now we want you to share your power with everyone else.' It might be hard for them to be enthusiastic about this." Companies that have established participative cultures prior to employees becoming shareholders are likely to have middle managers whose management styles complement the new equity structure in a way that facilitates performance improvements. But for many companies, employee ownership requires both an ownership and a management behavior transition. In these situations, middle managers should be offered development programs that teach them participative management skills (see Skills Development section, above).

The need for participative management development programs is underlined by a story told by the president of a company that had recently adopted an ESOP. He wanted to encourage his managers to listen to staff concerns and ideas. He suggested they begin with staff meetings where people could be encouraged to discuss their perceptions and ideas. About two weeks later one manager related how excited he was about the success of his first meeting. When pressed for details, he said, "It was a great meeting; for two hours I got to tell the staff everything that was on my mind!" Perhaps this illustrates just how easy it is for even a well-intentioned manager to miss the point.

Other vehicles for employee participation might include the regular creation of focused task forces or cross-functional problem-solving groups. Temporary and standing committees that include non-management employees and that have responsibility for some issue related to company operations reinforce the value of employees' knowledge and facilitate their involvement. In general, management practices that require employee participation (e.g., total quality and open book management) are consistent with, and will reinforce, a high-performance ownership culture.

[b] Formal Structures for Participation

Although management behavior and day-to-day employee participation are clearly important elements of an ownership culture, it may be insufficient to rely on management's "good intentions" to make ownership meaningful to employees.[5] Formal structures that allow employees to be heard are a necessary complement to a generally participative culture. The existence of formal participative structures assures employees that they will have input.

Structures for employee participation span a broad range of possibilities. In a minority of ESOP companies, at the level of corporate governance, employees may have designated seats on the board of directors; the board may have specified employee-elected seats; employees may have pass-through voting rights that allow them to vote for all members of the board; or a board may establish an employee communications committee. Any of these structures, or variations on them, may carry significant symbolic power for employee-owners. Making any of these alternatives an effective means of incorporating employee voices into the governance of a company is a much greater challenge.

For example, imagine a situation in which a company designates an employee seat on the board. Without sufficient education about the responsibilities of a board of directors, knowledge about corporate-level finance, and an understanding of the business environment, the employee easily could feel inadequate and, therefore, reluctant to speak up. The inadvertent silencing of an employee board member defeats any purpose for having that seat on the board beyond the purely symbolic value of the position. While the role of any board member is to protect the fiduciary interests of the company as a whole, board deliberations about policy and strategy can be enhanced when employee perspectives on these issues are understood.

During the last decade, an increasing number of employee-owned companies have acknowledged the value of, and have established, more formal avenues for employee participation by creating ESOP committees, which are usually intended to make sound use of employees' experience and knowledge. ESOP committees in different companies are likely to have divergent responsibilities and structures, depending on the reasons they were created.[6] When an ESOP committee is part of a company's strategy to translate employee stock ownership into productivity gains, its work should be focused on strengthening the links between employee behavior and company performance. Examples include: developing programs to educate employees about the ESOP, about business operations or about company financial information; providing a central forum for encouraging and/or collecting employee suggestions for operations improvements; and communicating company performance information to employees. Committees that have well-defined responsibilities related to the company's strategic ownership goals (e.g., how the company sees employee ownership as contributing to the achievement of its business objectives) can be very effective in boosting company performance. Through thoughtful structuring, these committees can avoid the pitfalls of becoming non-productive "gripe groups" or "social committees" (see Chapter 14 for a more detailed discussion of best practices in setting up ESOP committees).

[5] Mackin, 1995 (See ¶ 25.13).
[6] Moss & Vanderslice, 2000 (See ¶ 25.13).

[3] Defining Responsibility and Authority

Employees' expectations about where and how they will be involved in decision making and the level of authority they will have can be major sources of tension and frustration in employee-owned companies. Employees may be eager to be involved in a wide range of decisions at the same time that managers and leaders feel threatened by the idea of employee involvement. Successful employee participation depends on careful analysis of where their input is most likely to result in decisions that are superior to those made by individuals alone. Participative management theory does not support the idea of employee participation as a "feel-good" strategy. Rather, participation needs to be structured to best capture people's knowledge and experience.

Questions to ask include: What decisions should be made by which groups or individuals? What level of authority do groups or individuals have relative to each category of decision? Who should be included in the group making the decision? And who needs to be informed about the decision?

Considerations include: Who has knowledge about any aspect of the topic being discussed? Who will implement the decision? How quickly must the decision be made? Who will be held accountable for it? How important is buy-in for effective implementation? And who will be affected by the decision?

Organizational development tools such as "Responsibility Charting"[7] are designed to help deter-mine who should be involved in what kinds of decisions and to what end.

The specific structures and processes delineating a company's forums for employee participation are less important than are their thoughtful clarification and communication. In fact, most companies find that their employee involvement systems evolve as employees gain experience and sophistication. Clarifying the boundaries of employee participation also reduces the resistance of managers who may otherwise feel threatened by increased employee involvement.[8] It is not necessary when an ESOP is first announced for company leaders to be able to spell out specific forums for participation. However, because employees expect ownership to result in more participation, it is useful if a company's leadership can clarify their broad initial intentions in this regard.

25.8 **Short-Term Productivity-Based Incentives**

Because the potential payoff is too distant and the "line of sight" between actions and stock value is too indirect, an ESOP—or any other retirement plan—by itself has limited value as an incentive to motivate performance. More immediate rewards that are more directly connected to achieving performance goals will have greater motivational impact. If shorter term, performance-based incentives are also linked to employee ownership, they will contribute to employees' feeling that stock owner-ship is meaningful to them.

Ideally, a company's total reward system should be designed to reinforce defined expectations for ownership behaviors that are believed to facilitate the achievement of the company's performance goals. As simple as it sounds, this is often not achieved. Therefore, the first task in using the ESOP as part of the total incentive/reward system is to assess whether or not existing incentives undermine ownership behaviors. For example, if the company promotes teamwork as an ownership expectation, then rewards for individual performance might undermine that effort. An assessment of the impact of current incentives involves reviewing the full range of both monetary and non-cash rewards by asking, "Does each component in our system encourage employee behavior that is consistent with our de-fined expectations?" Adjustments then can bring all elements of the company's reward system into alignment.

[7] Beckhard & Harris, 1977 (See ¶ 25.13).
[8] Mackin, 2002 (See ¶ 25.13).

This challenge is not unique to ESOP companies, but removing disincentives is essential before employees will be able to see and respond to the positive potential of the ESOP.

ESOP companies build ownership-related motivation by designing short-term incentives that reinforce the ESOP and that highlight the performance-reward link. Short-term incentives generally have one central goal: they immediately and tangibly reward employees for behavior that the company believes will contribute to long-term success (and therefore make the ESOP more valuable as well). These can take many forms. One common alternative is a cash bonus based on specific productivity, profitability, or other performance targets linked to long-term success. For example, if scrap, order errors, rework, safety expenses, customer complaints, cycle time, reorders, or other factors improve, then so will the company's bottom line. Once each employee understands his or her part in improving the key numbers, a cash bonus could be attached to those improvements. Another alternative is to issue cash dividends on ESOP stock based on company performance measures. These dividends are generally tax deductible for C corporations, unlike dividends paid on non-ESOP shares, or distributions made by S corporations. They have the additional benefit of being distributed among employee-owners based on *ownership criteria;* i.e., employee-owners with more ESOP shares in their accounts will receive proportionately more dividends. ESOP dividends, therefore, reinforce owner-ship but provide cash. Whatever the final mix, the short- to medium-term incentives as a whole should help employees see the link between their day-to-day behavior and the creation of long-term share value through the ESOP.

25.9 **Open Book Management in ESOP Companies**

When asked what one factor makes ownership feel real to them, employees often answer that being provided with, and educated about, company numbers was a turning point in their experience. It is not surprising then, that open book management (OBM) has gained popularity in ESOP companies. Leaders who implement OBM realize the inefficiency of issuing directives that must filter to the front line from top layers of management who carefully guard the company's financial performance data.[9] According to Maxwell, OBM is much more prevalent in employee-owned companies than in other companies. It fits particularly well with employee ownership because it asks employees to think about and be involved with the company's overall financial performance and ensures that they will share, both short- and long-term, in the gains that are achieved. There is logic to the idea that if you want people to "act like owners," you need to provide them with the financial information that owners use to make decisions, teach them how to understand that information, ask them to use the knowledge to improve performance, and let them share in any financial gains that result. Treating people like owners, as OBM does, is one of the key factors in encouraging them to act like owners.

But OBM is much more than opening the books and sharing financial information with employees. In fact, all of the components of successful high-performance ownership cultures are incorporated when ESOP companies adopt OBM as an operating philosophy: communication of key performance numbers; education about the business and the numbers; employee involvement in using financial information to make decisions that improve performance; and the provision of performance-based rewards when key number improvement targets are hit. Proponents of OBM even talk about it as "creating a company of owners."[10]

The essence of OBM lies in the following steps: 1) identifying a few (no more than two or three) measurements that drive an individual company's overall financial performance; 2) educating employees

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[9] Maxwell et al., 1998; Case, 1995 (See ¶ 25.13).
[10] Stack, 1992 (See ¶ 25.13).

about why those numbers are important and how they affect them; 3) communicating those numbers as frequently as possible so that people can see the effects of their actions in an immediate way; and 4) rewarding people for moving the numbers in the right direction. Many OBM approaches try to make the process fun. Creating games and prizes related to successfully moving critical num-bers engages people's interest and removes any sense of intimidation employees may have about learning the numbers. Most companies introduce OBM developmentally, starting with something simple, building new knowledge on previous learning, and, as employees experience success and gain confidence, eventually moving to the company's larger financial picture. Rewards might be as simple as a company-provided meal or as substantial as distribution of a portion of the additional profits that result. Several good resources provide detailed OBM implementation guidelines.[11]

[11] Ivancic & Bado, 1997; Schuster & Carpenter, 1996 (See ¶ 25.13).

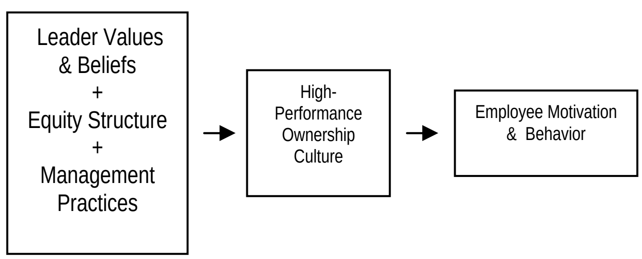
25.10 **Leadership**

The critical role of a company's senior leader and leadership team in shaping a company's culture is well-recognized in the organizational literature.[12] Studies of high-performance cultures indicate that a caring, involved leader is one of the most important ingredients in the success of high performing business units.[13] One of the keys to realizing the performance potential of employee stock ownership is to align the values of a company's senior leader with the equity structure of the organization. Leaders who view employee ownership as an opportunity to reward employees for their contributions to growing the value of the company are most likely to support management processes that link employee ownership with performance. These leaders are different from those who believe that if they give employees stock in the company, then employees will automatically be appreciative and motivated to perform. The former leaders are likely to be inclined toward employee involvement before the ESOP is initiated. The latter will find themselves frustrated, even angry, when employees don't behave as "owners."

ESOPs may be implemented for reasons that have little or nothing to do with leadership values related to employee involvement. Leaders who do not value employee participation are unlikely to be able to effectively champion the development of a company culture that maximizes the performance-enhancing opportunity of an ESOP. In this situation, it will be difficult, if not impossible, to develop a high-performance ownership culture. However, when leaders value employee input, their management processes are likely to be aligned with employees' ownership expectations. This alignment will make it possible for them to realize the full performance potential of an ESOP (see Exhibit 25-2).

Exhibit 25-2

Alignment of Leader Values, Equity Structure, and Management Practices



Finally, any serious change in organizational culture begins with a company's leaders. If the leaders have not already developed a participative management approach, they will have to change their behavior before employees can be expected to change. It is not unusual to think that developing a high-performance ownership culture is essentially about educating employees. But the key to effective culture change lies in the beliefs and behavior of a company's managers. A culture change process has to start with leaders and managers assessing their own beliefs and behaviors and determining how they support or block the development of the desired employee behaviors. Then the leaders have to honestly consider how much they are willing to change their own behavior. Employees will care-fully watch and evaluate both the words and actions of management before they themselves will take the risk of changing.

[12] Bate, 1994; Kotter, 1995; Kotter & Heskett, 1992; O'Toole, 1995; Schein, 1992 (See ¶ 25.13).
[13] Thompson, 1996 (See ¶ 25.13).

25.11 **Getting Started**

[1] Define Ideal Ownership Behaviors

Building a high-performance ownership culture begins with identification of the specific kinds of ownership behaviors that company leaders believe will result in better performance. It is easy to say, "We want people to think and act like owners." But it is much more challenging to answer the question: "If people really behaved like co-owners, what would they be doing that is different from what they do today?" Engaging a broad group of employees in defining desirable ownership behaviors is even better; the more people that are involved in shaping ownership behaviors, the easier and deeper the support throughout the company for those behaviors will be. At a minimum, a company's senior leadership team should agree on a list of core desirable ownership behaviors. That list might include: thinking about and sharing ideas about how to work more efficiently or how company procedures could be streamlined; reducing waste or unnecessary expenses; and cooperating with other functional areas. Articulating these behaviors and their priorities is necessary in order for employees to know what to do to support their development.

[2] Link Ownership Behaviors to Performance Goals

Once behaviors are delineated, a company's senior leadership team can ask itself, "If those behaviors were the norm in this company, then how would they facilitate the achievement of our strategic business goals?" Reaching a consensus about the answers to that question will solidify the leader-ship team's commitment to developing and reinforcing the desired ownership behaviors. In the absence of shared assumptions, any setbacks will quickly erode the culture-development process.

[3] Address Leadership Behaviors First

Senior-level belief in the assumptions about the link between behavior and performance is essential for another reason. If ownership behaviors are not currently the norm in a company, the first thing that has to change is the behavior of the senior leaders. They will need to define what they have to do and say to create a workplace environment that facilitates the employee behaviors that they wish to see. As noted above, employees pay close attention to the actions of leaders in order to know what is really expected of them. For example, if a company determines that taking individual responsibility is a fundamental ownership behavior, then managers must learn how to help people set their own goals (relative to those of the company or department) and then figure out themselves how to attain them. This also means they must hold people accountable for achieving the goals they set. Micromanagement does not communicate support for individual responsibility.

Before committing to developing an ownership culture, company leaders would benefit from self-reflection regarding their interest in and personal ability to facilitate and support the development of an ownership culture. Although the CEO's commitment is necessary, it is not sufficient to lead a successful culture-change initiative. A committed CEO's intentions can be undermined by other senior managers' lack of support, commitment, or skills. CEOs would be wise to evaluate whether or not the company has a strong enough core of leaders with the requisite values and skills to support the new culture. Efforts to develop ownership cultures in companies in which leaders are not personally willing or able to actively promote values consistent with a more open, participatory culture are destined for failure. It is more common than not for leadership-development programs to be a necessary key ingredient in building a high-performance ownership culture. Building a strong, supportive leadership team to drive the change is central to successful culture change. In some cases, replacing some members of the leadership team may be necessary.

[4] Assess the Current Culture

After clarifying the desired goals for the ESOP and surveying the interest and capabilities of the leadership team, a company should thoroughly assess its current culture. The resulting information will be extremely helpful in directing and prioritizing the activities that the company will need to undertake to build the desired culture. Through an objective assessment, leaders can gain critical in-sights into the strengths and weaknesses of their company's current culture. A cultural assessment may be quantitative or qualitative. It can be conducted by means of an employee survey, focus groups, individual interviews, etc. Assessment information provides baseline data against which to track improvements. Although many leaders believe they already fully understand their company's culture, an objective assessment can highlight relative strengths. For example, if employees believe they do not receive open, honest communication, this can erode their trust in management. If trust between management and non-management employees is low, getting employee support for a more participative culture will be difficult. Employees may be more likely to view invitations for involvement as management attempts to offload their responsibilities onto lower-paid employees, rather than as evidence of belief in, and respect for, employee knowledge and experience.

A good assessment can pinpoint where communications breakdowns are occurring and suggest constructive changes. In one company, an assessment indicated employees had a high degree of trust in top management but low levels of trust in middle managers. Through interviews it became clear that supervisors and team leaders were not passing on company information that they received at monthly meetings. Once this problem was identified, management moved quickly to improve the in-formation flow throughout the company and to train supervisors to deliver information effectively. These changes were important in building the trust necessary to move forward in developing a high-performance culture. Without an assessment, this company's leadership team might have begun with other actions that may have failed because, unknown to them, employees were skeptical about management's real intent.

An organizational assessment also serves a second function in the process of developing an ownership culture. It communicates to employees that their opinions and perspectives are valued and will be listened to. An assessment can send an initial signal that employee involvement will be a component of the new ownership culture. Distribution of the assessment results to all employees will enhance their perception of open communication and contribute to building trust.

[5] Plan for Changes in Structures, Policies, and Practices

After planning for changes in leadership and management behaviors, a broader plan for developing and reinforcing ownership behaviors can be constructed. This should be based on the results of the culture assessment and an understanding of structures, policies, and practices that will reinforce the desired ownership behaviors and the results of the culture assessment. Although it is tempting to think of this as an employee training task, a well-defined plan begins with an assessment of what the *company* must do to support ownership behaviors. An effective plan will align structural factors (e.g., whether or not the company's productivity-based incentive plan rewards individual behavior when team-based behavior is what the company wants), policies (do we say we want a culture characterized by trust and have policies in place that communicate distrust), and practices (whether or not employees have the decision-making authority and accountability called for in the new performance assessment system). Employee perceptions revealed by the assessment will help identify the ways in which current company structures, policies and practices do and do not reinforce ownership behaviors.

[6] Develop a Communication and Education Plan

The design of the communication plan and employee development program should flow from the company's ownership culture goals and from clarity about expectations for ownership behaviors.

[7] Evaluate Progress and Make Changes as Needed

Development of a high-performance ownership culture is not a project that can be seen as having a clear time frame and end point. It is a way of doing business that must become integral to the company's day-to-day operations and be reflected in all of the company's policies and practices. Changing a company's culture takes time; five to seven years is the rule of thumb, although significant gains can be made early in the process. Culture change is both revolutionary and evolutionary. Early on, dramatic changes in communications, involvement, responsibility, and accountability often take place. But as new structures, policies, and practices are put into place, their effectiveness needs to be evaluated and appropriate adjustments made. Further, as management and non-management employees mature in their new roles, new components may be fruitful additions to the culture. Culture is never stable. Continuous improvement happens only when organizations regularly ask whether or not there is a better way to accomplish their goals.

25.12 A High-Performance Ownership Culture is About More than Good Management

Good management includes many of the same components that are critical to high-performance ownership cultures: clear expectations for behavior; open, honest communication; employee participation; and employee education that supports behavioral expectations. Employee ownership isn't even necessary for open book management. But two factors make it easier to build a high-performance culture in an employee-owned company. First, employee ownership brings expectations that require a considered response from company leaders. This is both a leadership challenge and an obvious opportunity. Second, those same expectations, coupled with the fact of stock ownership, create a competitive advantage for ESOP companies. The potential for increased stock value and expectations for involvement together can make developing a high-performance culture easier. As owners, employees have more reason to want to be involved, to want to learn about the business and finances, and to want to contribute to improving the company's performance. Real ownership, rather than a "feeling of ownership," can make all the difference. Implementation of an ESOP can be a concrete and meaningful signal of positive change. If used well, it can also drive higher levels of performance in both the short term and the long term.

25.13 **Ownership Culture Bibliography**

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