

**EMPLOYEE OWNERSHIP CULTURE BUILDING:
Process & Success Measures**

**MANAGING IN AN EMPLOYEE OWNERSHIP COMPANY
MONDAY OCTOBER 15, 2007
3:15 – 4:00 pm**

Beyster |  UC San Diego
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How Do We Measure EO Success?

- For the Shareholders:
 - ESOP meets the financial and estate planning objectives of the shareholders who establish it.
- For the Company:
 - ESOP creates cash flow and operational enhancements.
 - ESOP results in an efficient “Ownership Oriented” operational style.
 - ESOP contributes to overall financial success.
- For the Employees:
 - ESOP affects the work life of employees in a positive way.
 - ESOP is sustainable for a long period of time.
 - ESOP creates a material wealth opportunity for Employees – creates wealth where it would not otherwise exist.
- Others? Community? Country? World?

What is the Formula for Success???

- Develop a sound business with honest reporting, solid products and good planning!
- Build a strong team of committed stakeholders!
- Engage all levels of the company in the effort!
- Inform and inspire entrepreneurial spirit at all levels!
- Make your business a “Great Place to Work”!

What we can learn from the “100 Best”:

- The “100 best” culture is non-threatening
- They have supportive, participative environments
- They encourage learning and training
- They have a clear, shared vision
- They give passionate customer service, but not at the expense of employee dignity and respect
- Employees trust the people they work for and have a real stake in success.

» Levering, The Great Places to Work Institute

The “100 Best Companies to Work For” also understand the role of a broad base of Stakeholders in Success

- 84 of the top 100 offer equity incentives to employees
- 45 of the 84 offer broad-based stock plans
 - 4 are majority owned by employees
 - 5 have non-majority ESOPs
 - 18 have broad-based stock options
 - 6 match employee 401(k) contributions with company stock
 - 14 have ESPP (Employee Stock Purchase Plans)
 - 4 have other broad-based stock plans
- And, according to the Russell Investment Group, the “100 Best” produced more than 3 times the gains of the broad stock market over the last seven years!

Sources: NCEO, Great Place to Work Institute

What Else Experience Has Shown Us...

- Things we know about what works:
 - Careful planning helps create ESOP success.
 - ESOPs work better where lots of information is shared.
 - ESOPs make more of a difference in the performance of companies when the companies have a participative management style.
 - ESOP education makes more of a difference when it is developed to fit your company, interactive and involving.
 - It is possible to create a great place to work without employee ownership, but it is a lot easier with it.

And the opposite is true as well...

- What we know about what doesn't work:
 - ESOPs have a hard time where there is secrecy about the terms and intentions of the plan.
 - If the ESOP doesn't make financial sense, it will not make any sense.
 - ESOPs will have little or no positive effect where they are taken as a trade-off for compensation or other benefits, especially as a way of trying to save a failing company.
 - ESOPs that never get beyond incidental ownership seldom produce any change in corporate culture either way (they don't hurt, but they don't help either).

An Ownership Culture Implies a Community of Stakeholders

How Can I Create a Community of Stakeholders?



Turning Employees Into Stakeholders: 5 Factors

- Information
 - “What do I need to know to have an effect on the success of the enterprise?”
- Autonomy
 - “Do I have the ability to have an effect on the success of the enterprise?”
- Opportunity
 - “Will I benefit from the success of the enterprise?”
- A Stake in the Outcome
 - “Will my family and I be able to benefit directly from the success I am helping to generate?”
- Respect
 - “Are my contributions to success acknowledged and valued?”

Factor 1: Information Means More Than Just Facts

- Open book Management*
 - Giving People the Information They Need to Make a Difference in Achieving Common Objectives.
 - Determining critical metrics is the key
- The Universe of Information:
 - Financial Information
 - Operational Processes
 - Current Issues and Business Priorities
 - Future Plans/Strategies
 - Communication Networks

* With Gratitude to John Case (See 2005's release [Equity](#), Harvard Press.)

Why Share Information?

- It's the Right Thing To Do! People Respond to Inclusion!
- Practical Reasons:
 - Studies Show Regular Information Sharing Improves the Company
 - More Profitable, Grow Faster, Less Turnover, More Likely to Weather Difficulties.
 - It is a More Efficient Development and Use of Resources
 - Input Closer to Problems, Faster Recognition and Solution, Shared Responsibility
- It's also a Lot of Fun!

Factor 2: The Value of Autonomy

- When any problem arises, it is very likely that the person closest to the work will see the problem first.
- It is not enough to just expect them to pass it up the food chain.
- The easiest time to fix a problem is as soon as it is noticed. Delay always makes problems worse.
- Giving employees the right and responsibility to fix problems really pays off.

How Does Autonomy Work in Practice?

- If I receive a complaint, I ought to be empowered to cure it!
 - Southwest Airlines
 - Springfield Remanufacturing
 - Nordstroms

- In an ownership culture, it should be both my right and my responsibility to contribute to the process as well as the outcome.

Factor 3: Creating a Future of Opportunity

- Your Employees' ambition is not your enemy.
- When your best employees have ambitions beyond your walls, you can choose to either have a captive (Golden Handcuffs are still handcuffs), a competitor (leaving bad feelings on both sides), or an ally (invest with the best).
- Giving employees a chance to move up and to share in the outcome will engage them in ways that magnify the positive and minimize the negative.

What does Opportunity mean in Practice?

- In order to get longevity/loyalty from employees, you have an obligation to create clear paths of long-term opportunity.
- Promoting from within ought to be the first choice.
- If you do not see the resources to grow within your company, that is your challenge...no one else's.
- When you need to go outside to fill a critical spot, engage others within the company in the process

Factor 4: Sharing a Stake in the Outcome

- Studies show that conclusively that work environment is more important than money or benefits.
- Studies also show that when ownership is coupled with a participative management style, the performance of the company is enhanced significantly. (Blasi & Kruse, Rutgers; NCEO; etc. See www.nceo.org for details.)
- Fostering an “Ownership Culture” creates a much larger pie to share.
- You must go beyond a “sense of ownership” to create real stakeholders

A “Steak” in the Outcome

Giving someone a “sense of ownership” is like feeding someone a “sense of lunch”.

-Corey Rosen, NCEO

Factor 5: Respect

- Ownership Culture requires mutual respect
- Respect cuts both ways – it is to be both given and required
- Respect means more than just listened to.
- Respect is the driving feature of a corporate culture that is open, cooperative, multidimensional and dynamic
- This is the very nature of an “ownership culture”.

The Best Case Study Is You!

- Information Sharing Success:
- Autonomy in Your Workplace:
- Opportunity Steps For Your Employee Owners:
- Your Employee Stakeholders' Piece of the Action:
- R-E-S-P-E-C-T:

The Result is a Community of Stakeholders that is Unbeatable!

