

RESEARCH BRIEF

Institute for the Study of
Employee Ownership and Profit Sharing

What are the Critical Success Factors of Employee Ownership?

Questions: What are the critical success factors (CSFs) for employee ownership and why are they important? The focus of this research is to identify factors that must receive top priority during a high-stakes implementation.

Summary: This research identifies the essential CSFs of employee ownership as discovered in 100 carefully curated articles, cases, and books dedicated to the subject of employee engagement in ESOPs and other employee-owned organizations. We find that highly successful employee-owned enterprises have a culture that supports everyday employee engagement and a unique commitment to the prosperity of the organization. This results in individual motivation to maximize profitability for the benefit of one another.

Becoming employee-owned requires a level of business acumen supported by good research and must be translated into activities contributing directly to the success of the firm. If CSFs do not receive attention, the likelihood of the successful implementation of employee ownership decreases significantly. The important issue of how to develop a 'one for all – all for one' esprit de corps remains the subject of ongoing research designed to discover the factors that contribute to a distinctive employee-ownership culture.



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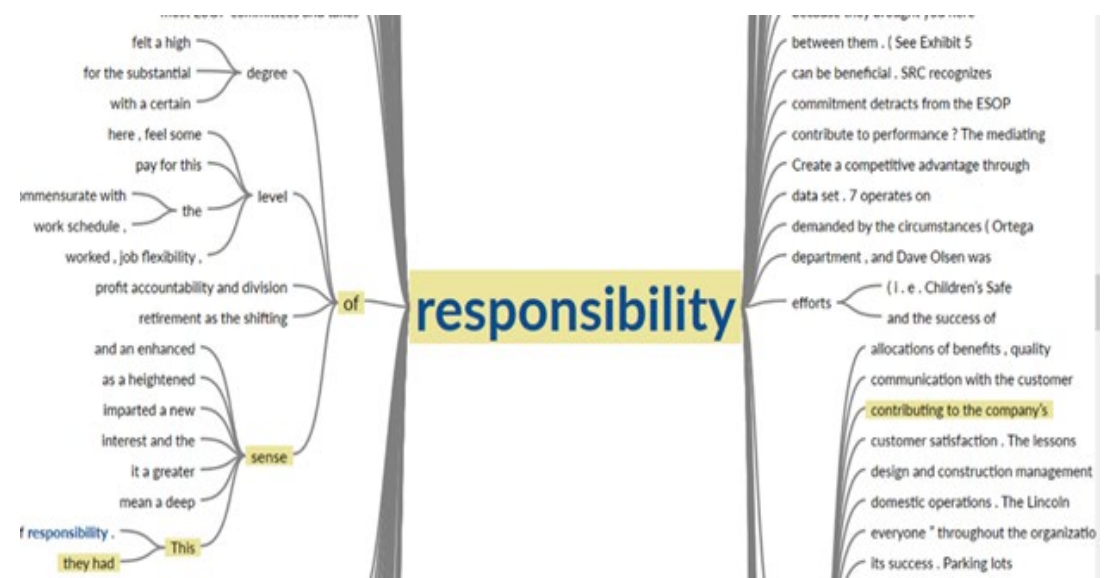


How are they established? There are several phases in CSF research. This brief contains the results of the first phase, desk research. The analysis was conducted in a qualitative software program, NVivo, which culls large amounts of data into actionable results. The articles and cases used for this CSF research were identified by numerous individuals in the EO ecosystem, and the collection contains much of the core research on the subject.

What are they? NVivo enables us to establish the CSFs in context, which provides a broad understanding of a relatively narrow set of CSFs. The following are CSFs in context as discovered in the literature.

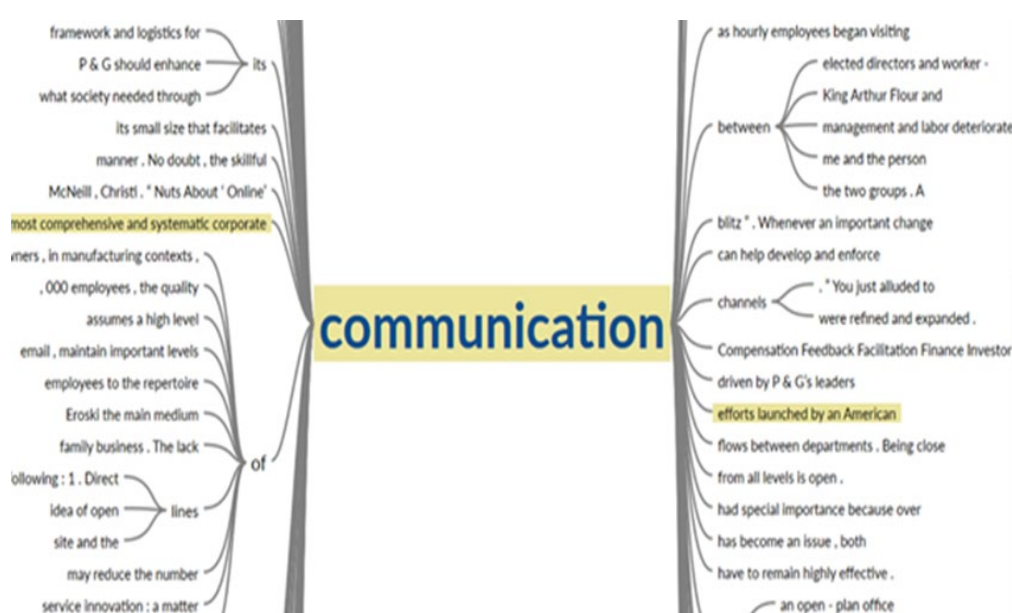
ACCOUNTABILITY/RESPONSIBILITY

- ❑ Referenced almost 200 times in over 50 different sources. The sources showed several items for which employees are responsible and types of responsibility. Attributes of responsibility are also revealed.
- ❑ Financial Responsibility (Profits)
- ❑ Responsibility for Various Functions
- ❑ A Sense of Collective Responsibility
- ❑ Systems of Responsibilities
- ❑ Being Responsible to Others



COMMUNICATION

- ❑ Search criteria included appropriate synonyms for communication. Together there were over 100 mentions in 74 sources.

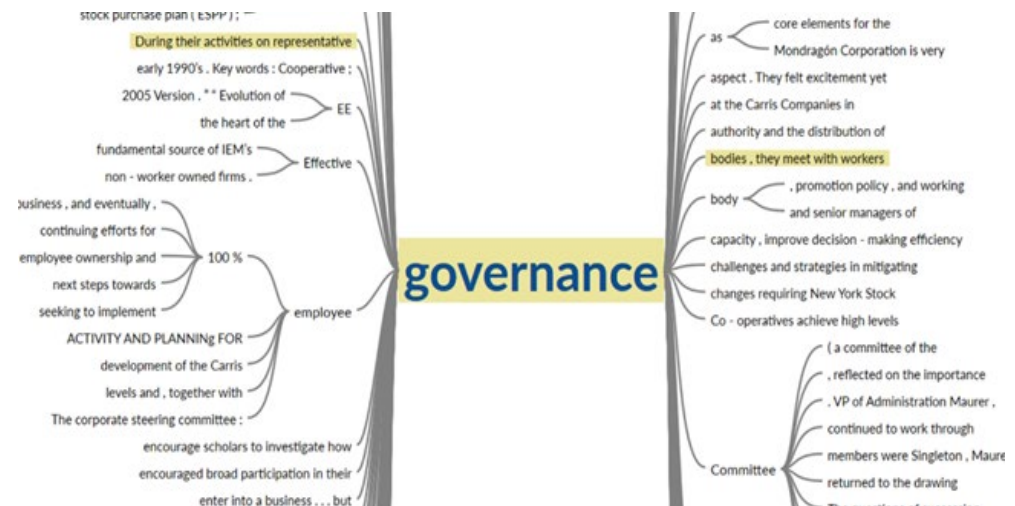


- ❑ Top Management Team (TMT) Duties
- ❑ Importance of Information Sharing
- ❑ Team and Committee Communication
- ❑ Setting and Promoting Expectations
- ❑ Lack of Communication is a Problem
- ❑ Establishing Channels



GOVERNANCE

- ❑ Unexpected results indicate that not only is governance important at the top levels of the organization, but also throughout the entire workforce. This probe resulted in over 4,200 references in 80 files.
- ❑ Transitioning to Governance to Incorporate Employee Owners
- ❑ Changes in Levels of Control
- ❑ Guidelines for Making Decisions
- ❑ Social Governance



INNOVATION

- ❑ Found in nearly every reference and cited almost 3,000 times. It is clear that innovation is important and the factors upon which it is dependent shed light on how the mindset of innovation is fostered throughout the company.
- ❑ Establishing a Culture of Innovation
- ❑ Provide Models of Personal
- ❑ Innovation Eliminating Obstacles
- ❑ Innovation HR Incentives
- ❑ Fostering Climate for Innovation
- ❑ Demonstrate the Power of Innovation

LEADERSHIP

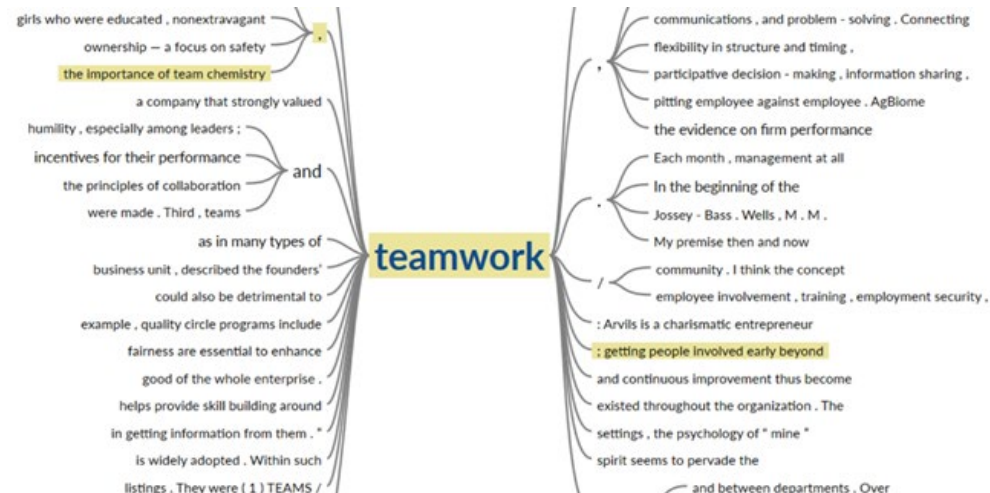
- ❑ Mentioned over 1,000 times and in nearly all sources. The importance of leadership is not limited to the TMT. It emanates from the top in all cases, then is inherent at all levels of most organizations.
- ❑ Broad-based Challenges
- ❑ Designing Jobs and Roles
- ❑ Peer Commitment through Leadership
- ❑ Formal Mentor Plan for Leadership
- ❑ Policies and Practices for Leadership



TEAMWORK

- ❑ The ability to work in teams is shown to be important throughout the literature, but the exact word search yielded few results. Only when the phrase was expanded to include committees, groups and other forms of cooperative engagement does the importance of teamwork become clear.

- ❑ Incentives and Pay
- ❑ Communicating Value
- ❑ Provide Skill Building
- ❑ Spirit of Engagement



TRAINING

- ❑ An exact reference was found in nearly every source and is mentioned 4,300 times. Clearly, successful EO organizations engage heavily in training and development of employees. Specific accounts of the term training are linked to a rather large number of initiatives, and it is described in numerous ways.

- ❑ Equity Compensation
- ❑ Training Financial Literacy Training
- ❑ Cross Training & KSA Development
- ❑ Basic Math and English
- ❑ Importance of Onboarding
- ❑ Cross Training & KSA Development

TRANSPARENCY (especially in finance)

- ❑ Cited as extremely important, it is referenced in a variety of formats, such as open-book management, honesty, and integrity. It is cited as important from the TMT down through the entire organization. Transparency is fostered through a variety of methods and its beneficial results are identified throughout the literature.

- ❑ Transparency at all Levels
- ❑ Builds Community and Trust
- ❑ Leadership Advocates
- ❑ Setting Expectations
- ❑ Results in High Morale
- ❑ Leads to Empowerment

Conclusions

Now that we know what the CSFs are, how do we create an action plan to ensure these CSFs are in place for a growing EO organization? Transforming employees into owners involves education and training. This is accomplished in a variety of ways, and through some of the following mechanisms:

- ☐ Informal Discussions (Tacit Knowledge)
- ☐ Formal Mentoring
- ☐ Published Policies and Processes (Explicit Knowledge)
- ☐ Communications (both Tacit and Explicit)
- ☐ Training (Formal and Informal)
- ☐ Experience & On the Job Training
- ☐ Signage (Hard Copy and Online)

The concept of 'Learning Management' can be applied to harness some of the complexities of transforming employees into owners. More in this subject – along with all the references for this brief, can be found at the article linked below.

[Operationalizing Critical Success Factors of Employee Ownership using Principles of Learning Management](https://doi.org/10.1080/02692171.2024.2410218)

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