

# NOTHING MEASURED, NOTHING GAINED

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**T**he jury is in. Research studies have amply demonstrated that a participative, ownership culture is what makes employee ownership powerful. But once you've decided that you want to build or reinforce a participative culture and you sit down to figure out how to do it, you may realize that it's difficult to know where to begin. Do you really have a clear sense of what employees need? Or where at your company to focus your efforts?

The Total Quality guru, Edward Deming, made a significant impact on the corporate world when he reminded us that "what doesn't get measured doesn't get done." No matter how much you want to build an ownership culture, unless you have a way to gauge your current situation, you will have some trouble knowing how to direct your efforts. Unless you can measure your progress, it will be hard to maintain the effort.

We at Ownership Associates have tried to meet this measurement challenge by developing a survey tool specifically for employee-owned companies called the Ownership Culture Survey (OCS).

Over the last year or so, the OCS has been used by some of the best known employee-owned companies in the country and by others who are just starting out. Our database of over 2,000 respondents used for this article comes from the eight companies who took the latest version of the survey. The smallest company to take the OCS has less than 30 people; the largest has over 2,000. They range from service sector to manufacturing to professional.

Here are some of our findings — we hope they'll be helpful to you as you build your own company's ownership culture.

### The Importance of Ownership

One of the most consistently high-scoring items from our survey is the one that asks people, "How important is ownership to you?" For the companies in our sample, this item was rated 7.8 out of 10. The bad news is that the score for a related item was 42% lower. When we asked people "How much do you feel like an owner?" the average score was 4.5.

The large gap between these two scores represents *the potential of employee ownership*. It is clear that employee ownership is important to people, but it is equally clear that in our sample companies they don't completely feel like owners yet. The implication is that ownership can be an enormously powerful motivator but even some of the best companies are not tapping into its full potential.

Survey results also show that the more people feel ownership is important, the more they tend to accept the responsibility to solve problems and the more they feel they have the tools and the abilities to do so.

### Employee ownership and Employee Attitudes

How does employee ownership affect people's feelings about work? There seem to be a whole host of attitudes that are associated with feeling like an owner: a strong work ethic and a desire to learn about the business, for example. Aside from these, however, there are three primary effects that strong ownership feelings

produce. It looks like the more employees feel like owners, the more they feel satisfied at work, the more they are committed to the company, and the more overall trust they have in management.

### Rights, Responsibilities and Ownership Culture

One idea featured prominently in the survey is the balance between ownership rights and responsibilities. For example, employee owners often feel they have a *right* to influence the direction of the company. If that's true, they should accept a *responsibility* that's part and parcel of that right: they should give their input prudently and in the best interests of the company, recognizing the role of management expertise.

In the results for company after company, rights and responsibilities actually do seem to be linked — the same employees who have a stronger sense of their rights at the company tend to feel their responsibilities more deeply.

### Building an Ownership Culture: What Works

The survey suggests two specific areas which appear to have the largest effect on how much people feel like owners:

- *Understanding the ESOP*. People who say they understand the ESOP (or other ownership plan) feel more like owners. It seems clear that people need to understand what the ESOP is before they trust it, and they need to trust it before they feel like owners.
- *A measure of influence at the company*. Employees who feel they have some input into what happens at their company are much more likely to feel like owners. As an example, at the company that has the lowest level of perceived employee influence, employees do not feel much like owners — they had a score of 3.7 out of 10. The employees who feel the highest degree of influence feel much more like owners — they had a score of 6.3 out of 10. A feeling of influence does not mean that employees want to vote on everything — it does suggest that feeling included

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pany he bought, Atkinson Products, after five years of the ESOP. The sale generated an average payout of \$80,000 per worker.

Even more remarkable, however, is that three of the companies (Zephyr Products, Heatron, and Henke Manufacturing, his current company) have a program to employ prisoners on work release. At Heatron, a manufacturer of heating equipment based in Leavenworth, KS, about 40% of the work force comes from this program. Work release employees come from Leavenworth Prison and typically stay 18 to 26 months. They have an accelerated ESOP vesting schedule that fully vests in three years and partially vests along the way. The companies pay \$5 to \$6 per hour to the workers, who return to the prison after work. Prisoners also receive training and assistance in finding new jobs when their prison terms are over. None of the companies receive government subsidies for these programs. Braun is now heading a national effort to replicate the work release program elsewhere.

### **Houlihan Study Points to Increasing ESOP Use**

Yet another survey showing the growth of employee ownership was released by the investment banking and valuation firm Houlihan, Lokey, Howard, and Zukin. According to their report, 26% of middle-market leveraged transactions in 1996 involved ESOPs, compared to 17% in 1992. The percentage has risen gradually over the years, but spiked upward in 1995 when the economic recovery took hold. ESOP middle-market loan volume in 1995 was \$1.5 billion.

### **FASB Issues Stock Plan Guidance**

The Financial Accounting Standards Board (FASB) has issued a technical bulletin on stock-based awards granted, renewed, or modified after November 1, 1997. The guidance covers Section 423 plans with a "look-back feature." This provision sets the purchase price at the lesser amount of a stock's price at

the date of the grant or its market price at the date of the exercise of purchase. According to FASB Statement 123, look-back provisions cause the stock purchase to be considered as compensation. FASB chose not to go along with comments made on the proposed draft, such as adding guidance on earnings per share issues when there are variable numbers of shares involved and treating different kinds of plans, such as plans with a single purchase period with variable holdings, as plan modifications.

### **British Employee Ownership Index Results**

**T**he Employee Ownership Index for the United Kingdom rose 7.5% in the third quarter of 1997 compared to 7.8% for the FTSE Index. Since 1992, however, an equal investment in the 50 companies making up the employee ownership index would have increased 331%, while an investment in the FTSE index would have only grown 194%. The index is compiled by Capital Strategies, an ESOP investment banking firm in London.

### **Polaroid Appeals Case Decided**

The Eleventh Circuit Court of Appeals has ruled that employees are not fiduciaries for unallocated shares in their accounts when they do not receive specific instructions from trustees stating that plan documents provide that the actions or inactions of participants will control how these shares are voted or tendered. In *Herman v. NationsBank* (CA11, No. 95-8934, 11/5/97), the court reviewed a lower court's decision that the trustee of Polaroid's ESOP (NationsBank) failed to live up to its fiduciary duty when it followed plan documents and tendered unallocated shares in the Polaroid ESOP in a way that mirrored the directions employees gave on allocated shares. The lower court ruled that trustees in ESOPs have the responsibility to direct the voting or tendering of unallocated shares in an ESOP. The Appeals Court took a narrower view, simply stating that employees could not be named fiduciaries

for these shares in this case because NationsBank failed to notify employees of the consequences of their actions with respect to unallocated shares. This narrower view leaves unresolved whether a properly structured plan could allow mirrored tendering and voting or whether trustees would have to override such provisions.

### **Bill Introduced to Broaden Stock Options**

House Ways and Means Committee member Amo Houghton (R-NY) has introduced legislation that would increase the limit on incentive stock options (ISOs) to \$200,000 per year for companies that grant options to at least half their work force. The bill would treat these employee options in a way similar to ISOs but with an 18-month post-exercise period rather than the one-year exercise period now in effect. *NCEO*

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in the decision-making process helps people feel like owners.

The survey points out several other factors that affect how much employees feel like owners. Among these are access to company information, taking part in decisions at the workplace level, being recognized for extra efforts or extraordinary contributions, and belief that management's support for employee ownership is genuine.

Aside from the ways in which these kinds of detailed findings can help guide a company's training strategies, the most practical outcome of a survey exercise may be the opportunity it creates for internal dialogue. At the end of the day, a good survey is not just a measurement tool which tells you "how you're doing." It is also a mirror that provides the opportunity to help you understand who you are.

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