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Cambridge, Massachusetts

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Surveys and Employee Ownership

Employee ownership is an ***INVESTMENT*** of company time and resources.

The ***RETURN*** on that investment depends in part on organizational culture.

Companies need an accurate ***MEASURE*** of culture in order to manage it.

The Ownership Culture Survey helps you maximize the return on your investment in ownership.

Revised March, 2003

The Ownership Culture Survey™

"The Assessment Standard for Employee Ownership"

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Introduction

Total Quality expert Edward Deming wrote that "*what doesn't get measured, doesn't get done.*" Organizational culture, despite its role as a basic determinant of the success of employee-ownership companies, has always been difficult to measure.

In the early 1990s, Ownership Associates decided to apply its consulting expertise to the task of creating an culture assessment tool for the employee-ownership community. The result is the Ownership Culture Survey™, an instrument which Corey Rosen, the Executive Director of the National Center for Employee Ownership has called "*the best survey you can get on employee ownership*."

This booklet will familiarize you with the research about the effects of organizational culture on company performance in employee-ownership companies. It describes what ownership culture means and how a survey can help companies build a culture that allows it to reach the full potential of employee-ownership.

There are five sections to this overview:

1. ***Ownership Culture and Company Performance***
   briefly highlights the research on ownership culture.
2. ***Surveys and Culture Development***
   covers the role of surveys in managing corporate culture and promoting ownership behaviors.
3. ***Surveys for Employee Ownership Companies***
   discusses the unique assessment needs of companies which share ownership broadly.
4. ***Defining Ownership Culture***
   introduces our framework for understanding an ownership culture.
5. ***Possible Survey Follow-Up Work***
   is designed to give you a sense for what other clients have done with their survey results.

1 Ownership Culture and Company Performance

Company Performance

With a degree of consensus rare in the social sciences, a variety of studies indicate that combining participative management with employee ownership makes companies more successful. For the sake of brevity, we'll just cite a few of them here.

In his 1994 study of ESOP companies in the state of Washington, Peter Kardas wrote that his findings suggest "*that the combination of employee ownership and significant participation makes it possible for employee ownership companies, on the average, to have an advantage unavailable to their competitors*."

The unique characteristic of the Kardas study is that it includes a measure of participative culture. Kardas found that the higher rates of employment and sales growth rates associated with the *combination* of employee ownership and participation were statistically significant, and that such companies tended to outperform both non-participative employee-ownership companies and participative non-employee-ownership companies.[1]

A 1987 study by the General Accounting Office of the United States Government used tax data not available to non-government sources to study the effect of ESOPs on corporate performance.[2] Their conclusion is worth quoting directly:

> With regard to several factors that have been suggested as likely to affect ESOP firms' performance, none that the GAO examined, except employee participation, showed a statistically significant relationship with changes in either profitability or productivity.

Other studies by the National Center for Employee Ownership, by the State of Michigan, and one published in the *Harvard Business Review* reinforce the conclusions of the research cited above.[3]

Company Operations

The studies above focus on traditional proxies for company success, such as sales growth, profitability, and employment. Employee ownership also affects several important aspects of a company's operations.

The term "participation" in the above studies encompasses a cluster of possible interpretations. Its components clearly include involvement in decision making at some level, access to company information and a sense of responsibility for the health of the company. A more developed model of this condition, which we term a strong ownership culture, is in section four of this booklet.

Drawing on part of this model and the results at companies which have used the OCS to date, the data we have collected supports the following propositions: employee-ownership companies which successfully foster a feeling of involvement in decisions are more likely to have employees who believe: (1) that they work hard, (2) that they are responsible for correcting mistakes, (3) that meeting customers' needs is important, and (4) that they have an impact on company performance. (More details are available in our working paper *Self-Direction and Employee Ownership.*[4])

A strong ownership culture can increase employees' satisfaction with their jobs, improve labor-management relations, and encourage commitment to the company. Of special importance in tight labor markets, employee-ownership can be valuable in recruiting and retaining employees. In some industries, employees have come to expect an equity interest as a natural part of their employment package.

In short, there are an array of mechanisms through which employee-ownership can influence company performance. Based on our experience and the research evidence, we believe that organizational culture is a mediating factor between the legal fact of ownership and performance results. The appropriateness of an organization's culture can determine the payoff it gets from an investment in employee-ownership.

2 Surveys and Culture Development

The most obvious reason to use a survey is to gather data for input into the planning process for a wide array of corporate activities. A second reason, often overlooked, is that a survey can be the first step in a constructive dialogue that can generate new ideas and improve relations among employee groups. We discuss both reasons below.

Data Gathering

A survey is often the most effective way of obtaining ***objective data*** about employee attitudes. As with any other aspect of business, it is impossible to make solid plans without an accurate assessment of current conditions. The difficulty both in gauging the prevailing perceptions and expectations and in defining a strong ownership culture make culture assessment a daunting job. The task is complicated by changes over time and variation from one segment of the work force to another.

Measurements are needed for a number of purposes, perhaps the most basic of which is ***resource allocation***. If there are no measurements that can quantitatively describe progress toward this objective, employee training and culture change efforts will constantly be at risk in comparison to other measurable objectives.

A specific contribution which survey data can make is to a ***training program***. Survey results can help you better understand the concerns of the work force and the particular issues which should be addressed in any future training programs for them to feel satisfied.

Surveys can also ***solicit concrete process suggestions*** from the work force. While people may not go out of their way to write up and drop off a suggestion for a process improvement, we have found that they are likely to write something down once they have already started filling out the survey. At one client, over 90% of respondents offered suggestions.

Survey data can be especially valuable ***when the company is considering a particular new initiative*** that would require employee support. In particular, a survey with some specially targeted questions may be timely if you are considering new incentive systems, creating or expanding an employee-involvement program, modifying your benefits package, sharing company information more broadly, expanding or reducing the level of employee ownership, or offering training opportunities to employees.

Internal Dialogue

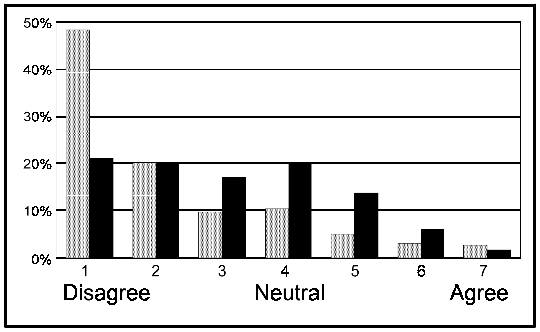
While data gathering is the most obvious reason to use a survey, a second reason is vastly under-rated—done correctly, ***the survey process itself can improve your company culture***. The first step in changing employee attitudes is to listen to what employees have to say. The survey sends an important message from management to the work force that employees are important and worth listening to. By sharing the results of the survey, management shows a degree of trust in the work force, and a willingness to share what will certainly be both good news and bad.

> *"I feel that the company must feel that we at [OurCo] are worth the effort if they are spending the time and energy to do this type of survey."*
> *—anonymous respondent*

A survey also serves as the "raw material" for a series of on-going conversations among co-workers. If used right, it generates a huge amount of discussion and helps people come closer to consensus about the meaning of ownership and their expectations for the company, for themselves and for each other. In fact, we have found that one of the most effective ways to move towards a healthy ownership culture is to set up structured conversations around the results of the survey.

One example of how a client used the survey results to launch a series of large-group meetings is available from Ownership Associates.[5] As a result of the wide-spread sharing of survey results and a series of task teams which worked with the survey data to respond to cultural and operational weakness, conditions at the company have changed dramatically. The chart to the right is an example of how employees' perceptions of the company changed over the 18 months between the first and second administrations of the survey. The gray bars represent their responses in the first year; the black bars in the second. As the chart shows, the extreme negativity of the first year has been reduced, and although the work force is not yet positive overall, the improvement is substantial. In this case, it was the combination of the survey as a communications tool and the follow-up work the company did that resulted in the change reflected in this chart.

Employees at [OurCo] have real influence over company-wide decisions.



3 Surveys for Employee-Ownership Companies

Ownership and Culture Assessment

All companies must grapple with the task of building an effective organizational culture, but in an environment of shared ownership, this task is qualitatively different. People need to reconcile two powerful and often contradictory ideas—*employee* and *owner*—with their images of themselves and their peers. People's attempts to manage this difficult reconciliation affects virtually every aspect of company culture.

The profound organizational culture changes associated with ownership imply that ***a survey is only useful to an employee-ownership company if it is designed with employee ownership explicitly in mind***. Traditional employee attitude surveys raise many important questions, but without considering the effect that ownership has on people's perceptions and expectations, such surveys overlook or underemphasize issues of great importance in the minds of employee-owners.

The Ownership Culture Survey™

Given the unique conditions in an employee-ownership environment, companies often consider two different approaches to assessment: writing a questionnaire themselves, or use a survey written specifically for employee-ownership, such as the Ownership Culture Survey™ , or OCS. We believe that the OCS offers three key advantages that an in-house survey cannot:

(1) Rigorously tested questions
(2) A proven framework to ensure the survey is both comprehensive and coherent
(3) A way to translate raw data into meaningful and usable results, especially through comparisons to other companies.

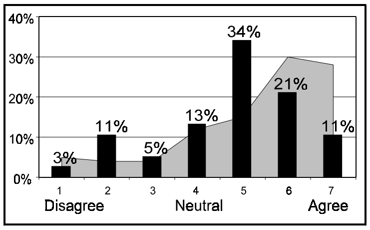
First, the OCS items are ***fully tested***. We began initial work on the survey in 1991 and have been actively testing and refining it since 1994. It has been used by some of the best-known employee-ownership companies in the United States as well as others just starting work on their ownership culture.

Second, the OCS is based on a ***detailed theory*** of the idea of ownership in business organizations. Employee ownership of a corporation is not a simple, one-dimensional phenomenon whose impact can be adequately gauged with a few survey items that give it a straight "thumbs-up or thumbs-down" judgment. In place of a one-dimensional measure of ownership—i.e., strong or weak—our approach measures the complex and multi-dimensional nature of the psychology of ownership. This comprehensive approach ensures that no significant but unexpected viewpoints are overlooked. (See next section for more information about our framework.)

Third, the OCS provides multiple ways to ***give meaning*** to your results. Too often, it is easy to say what your results ***are***, but not what they ***mean***. Raw data cannot guide your planning or answer your questions. There are five basic ways in which you can determine the meaning of your results.

- First, **comparison with other companies**. The unique factors introduced by ownership makes other employee-ownership companies a key source of benchmarking data. In the chart to the right, the client's scores are in black and the database norms are the gray area behind the bars. As you can see, the client's results look positive at first glance, but are substantially below the database average, indicating that the company has room to improve.

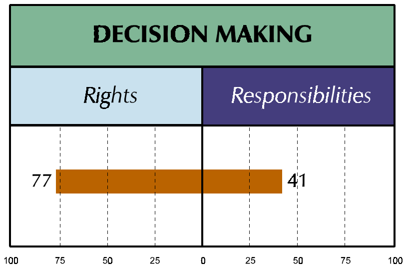
When the company does well, employees share the benefits.



- Second, **comparison of internal employee groups**. The differences between portions of the workforce (i.e., between departments, owners versus non-owners, managers versus non-managers, or seniority groups) are often systematic, and suggest the need for different types of management reactions for different types of employee groups.

- Third, **comparison to yourself over time**. The second administration of a survey adds a new dimension of value to the company. The ability to track changes over time helps you evaluate the effectiveness of your programs and the areas where you need to re-evaluate your efforts. The company we discussed on page 5, for example, observed significant changes in the extent to which people felt included in the decision-making process.

- Fourth, **relationships among survey items**. Your results have meaning if they are part of a framework in which questions have defined relationships to each other. In our Rights and Responsibilities Framework, the meaning of a high score on a right depends on the strength of the corresponding responsibility. For example, a strong rights score combined with a low responsibilities score indicates that the culture is out of balance: in the case of the company whose scores are in this chart, employees are making decisions without accepting the obligations that would assure the quality of those decisions.



- Fifth, **as the "raw material" for internal dialogue.** Through structured discussions, employees can interpret—i.e., create meaning from—the raw survey results. See the company discussed on page 5, or the Ownership Associates publication *Project Update: Sample newsletter and survey results.*

In sum, we believe the OCS allows you to combine the benefits of a survey specific to employee-ownership with the benefits of a standard set of questions which have been field tested and benchmarked.

4 Defining Ownership Culture

Perceptions and Expectations

To a large extent, the impact of employee ownership on operational outcomes depends on employees' perceptions of ownership. In other words, it is not the *existence* of employee ownership, but how it is *perceived* that affects behavior. For maximum effect, ownership must be understood as a factor in employees' day-to-day experience of their jobs. Employees will not be motivated by company success, aligned with company interests, or committed to the company's future unless they *believe* that ownership is in their best interests. This belief, or its lack, is an element of organizational culture, and is not an automatic by-product of a legal document, the passage of time, or training.

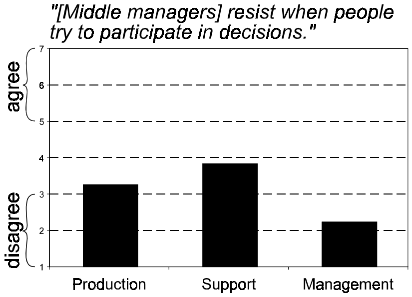
In addition to perceptions, employee behavior is affected by their *expectations* for what ownership *ought* to mean about how the company operates. Dissatisfaction and demotivation may arise as a result of low perceptions, high expectations, or a combination. To effectively manage an organizational culture, a company must explicitly focus on both perceptions and expectations.

> *More research evidence and management implications of perception/expectation theory are available from Ownership Associates. See our curriculum entitled* Frontiers and Boundaries: Managing Ownership Expectations.

Much of the need for systematic culture assessment, such as a survey, arises from the complexity of perceptions and expectations. Different segments of the work force have different perspectives on ownership, and these perspectives change over time. It is particularly important to differentiate between the managerial and employee perspectives. In addition, there are several aspects of ownership, and the perceptions and expectations for each may be independent of one another.

A final level of complexity, perceptions and expectations are, themselves, cultural objects. Employee groups have perceptions of one another, and expectations for each others' behavior. The result is that not only do perceptions and expectations matter, but a meta-level of perspectives matter: people have perceptions of each others' perceptions. Managers may have expectations for how they think employees *should* perceive the company. Employees may think that managers see the work force as untrustworthy. Managers may be convinced that employees want to vote on every decision.

In this chart, the work force was much more negative than management about the extent to which managers welcome participation. In this company, employee perceptions of management were significantly out of line with mangers' self-perception.[6]



Ownership Identity

The *Ownership Identity* segment of the OCS measures the extent to which members of the organization identify themselves as owners of the company. We approach this dimension from several directions. People indicate how much they ***personally*** feel like owners and also act as observers, reporting to what extent they believe ***other members*** identify themselves as owners. We ask how ***important*** ownership is to each person.

The survey also investigates what ownership means to respondents. This analysis concerns the varying degrees of importance people attach to each of five possible meanings of ownership: financial payoff, having a say over decisions that affect daily work (participation), input into overall company direction (influence), a sense of community, and being treated fairly. Measuring these aspects reveals the extent of alignment at a company about the meaning of ownership.

Rights and Responsibilities: The "Moving Parts" of an Ownership Culture

We believe that the core meaning of employee-ownership in day-to-day company life is best captured by a framework of core ownership values—we refer to these values as the ***rights and responsibilities*** of ownership. Rights consist of the claims, or the perceived claims, that a member of an organization can make on the organization. Responsibilities are the perceived claims that the organization makes on the member. Those rights and responsibilities do not end with the factual declarations of legal documents—they exist largely in the realm of perceptions by workers and managers about the ownership idea.

Over the years, we have elaborated this idea into a framework for organizational analysis: the Rights and Responsibilities Framework. Our experience in the field and the results of the survey at a variety of companies indicate that rights and responsibilities come in pairs and that the concept of ***balance*** is crucial in understanding how rights and responsibilities relate to each other. For every right of ownership (such as the right to a degree of access to company information), there is a corresponding responsibility: in this case, the responsibility to learn what that information means and how it applies to each person's day-to-day job. In an ideal culture, each of the rights and each of the responsibilities are strongly felt and in balance.

An implication of our theory, which has been supported at all companies which have taken the survey, is that rights and responsibilities tend to be positively correlated. In other words, one way to encourage people to accept more responsibilities is to allow them more rights. This is, of course, an oversimplification: there are countless factors specific to each company and each person that determine willingness to take on more responsibility. Specifically, one should consider the balance between a right and its paired responsibility before acting to increase either. Although increasing rights tends to increase responsibilities, if the right is already more strongly felt than the responsibility, increasing it further is unlikely to help. In fact, it may hurt by aggravating the imbalance between the two.

There are six right-responsibility pairs, with four to eleven survey items each:

- **Decision Making**: the extent to which employees have a voice in the company, and the extent to which they use that voice prudently
- **Information and Learning**: access to company and individual/team information, and the responsibility to understand such information
- **Organizational Fairness**: the extent to which people believe that company policies are fair and that no one gets undeserved special treatment
- **Accountability**: a measure of how much managers and employees are answerable for their actions
- **Work and Pay**: an exploration of the basic employment relation—a fair day's work for a fair day's pay
- **Entrepreneurship**: employees should understand that they receive ownership rewards—growth of account value—in return for bearing ownership risk and that they are expected to invest time, energy, and innovation into the company

Complementary Items

The Complementary Items look at general issues relating to the climate at the company. The seven elements composing this dimension are: satisfaction, willingness to make sacrifices, respect, commitment to the company, the belief that change is possible, and trust. Trust is a major issue, covered by several survey items. Research consistently finds that the perception that management is committed to ownership is an important prerequisite for the success of an ownership culture. The items in this section investigate general levels of trust in management and also specifically trust in management support for ownership.[7]

Analysis

The data in the survey is used to generate measures of several other areas, including:

- cynicism
- degree of consensus
- positive / negative orientation
- individual and observer items

* * * * *

The graphic on the next page summarizes our approach to ownership culture.

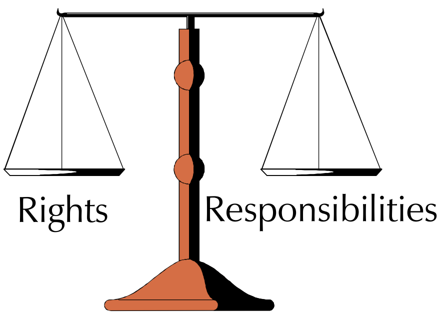
The Ownership Culture Survey

Content Areas

I. Ownership Identity

How much do people feel like owners?
How important is ownership to them?
What about ownership is important?

II. Ownership Values: Rights and Responsibilities



- DECISION MAKING
- INFORMATION and LEARNING
- ORGANIZATIONAL FAIRNESS
- ACCOUNTABILITY
- WORK and PAY
- ENTREPRENEURSHIP

III. Complementary Items

Trust in Leadership
Perceptions of support for employee-ownership by company leadership

Work Atmosphere
Atmosphere of teamwork, trust, respect, job satisfaction, sense of community

5 Possible Survey Follow-Up Work

The Ownership Culture Survey is an effective centerpiece of a long-term culture change program. One key challenge in maximizing the effectiveness of a culture assessment is being prepared for the follow-up to the survey.

The following suggestions share some of our experience with what has been effective at other employee-owned companies. The purpose of presenting them here is to give you a sense of the context in which the survey is most effectively used.

To that end, we provide five "thumbnail" sketches of actions you may want to take in order to make the most of your survey process.

- **Large-Group Survey Results Meeting**. The survey process tends to generate enthusiasm and interest. This energy can be channeled through a large-group meeting (possibly involving all employees in smaller companies). We have found that employees get a sense of "closing the loop" when they see the results of the surveys. This is also an excellent opportunity to build on the concrete process-improvement suggestions made in the survey and refine them into workable plans. When such a meeting has tangible results in the form of changed company behavior, it makes a powerful impact on the work force and can go a long way to improving trust of management and a sense of commitment.
- **Frontiers and Boundaries**. If decision making issues emerge as a major concern from the survey, the *Frontiers and Boundaries* training curriculum can be used in a variety of ways to create a more realistic, effective, and broadly accepted participation program. Elements of this program can be arranged for strategic management planning, for the work force as a whole, or for a targeted segment of the work force, such as middle managers. This curriculum includes the Influence Allocation Exercise.
- **Ownership Facts Training**. Especially if the survey reveals that your company's score on Entrepreneurship rights is weak, Ownership Facts training can help people understand how they share in company success. This program is designed to answer the most common questions raised by employee-owners as they get acquainted with their ESOP or other equity-ownership plan. It generally consists of a training program delivered to all or most of the work force and a booklet that serves as a stand-alone reference.
- "**You and the Company Bottom-Line.**" In response to weak scores in responsibilities scores, especially in the Entrepreneurship and the Work and Pay culture elements, some of our clients implemented a training program designed to clarify the link from individual performance to business results**.** If employees already understand how they personally gain when the company succeeds, they are motivated to improve the company's performance. However, once employees have the ***motivation*** to improve company performance, another connection must be made to give them the ***ability*** to do so. "You and the Company Bottom-Line" can help employees understand how the business makes money and how they can contribute, as individuals, to the future success of the company. Especially if

the survey identifies this as a weakness, the program is designed to give employees concrete ideas about how they can affect stock value through their day-to-day work activities. When employees understand how their actions help or hinder company performance, they have the tools to make it better.

- **Rights and Responsibilities Group™ training** is designed to address head-on the difficult issue of creating an ownership culture. This training is based on adult-learning research and our own experiences in helping a wide variety of companies (including United Airlines, Reflexite Corporation, and Parametrix) work toward a strong culture. The heart of this training is the rights and responsibilities system of ownership. The concept of owning something implies a packet of rights to most Americans. Yet, especially in the context of stock ownership, fewer recognize the responsibilities which accompany those rights. Rights and Responsibilities Group™ training helps employee-owners discuss and come to common understandings about the rights and responsibilities of being employee-owners. The R&R Group™ training builds off of the same theoretical framework as the Ownership Culture Survey, giving participants a common vocabulary and set of concepts to discuss and establish a shared, and developing, understanding of the ownership culture.

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This booklet is designed to provide an understanding of the role that a systematic culture assessment can play in helping an employee-ownership company create the culture it wants.

You may wish to explore some of the free resources available from Ownership Associates, listed on the next page. We are also pleased to prepare a no obligation proposal for you about using the Ownership Culture Survey™ at your own company.

The Ownership Culture Survey™ is the only commercially available attitude survey designed specifically for employee-ownership companies, and is available at a price below the typical employee survey. Contact us for more materials, references, or the introductory packet, which steps you through the process of customizing the survey for use at your company.

Publication List

This booklet is one part of a series of publications made available by Ownership Associates to the employee-ownership community. Contact Ownership Associates for more information about any of our products.

You can also request any in-house publication mentioned in the booklet, or any of the following materials.

- "Trust and Ownership: Trust in Managers and Trust in Ownership," *The Ownership Culture Report,* Vol. 1, No. 1, Cambridge: Ownership Associates, Spring / Summer, 1998.
- "Participation: Decision Making and Employee Ownership," *The Ownership Culture Report,* Vol. 1, No. 2, Cambridge: Ownership Associates, Fall / Winter, 1999.
- "Ownership Cynics," *The Ownership Culture Report,* Vol. 1, No. 3, Cambridge: Ownership Associates, Spring / Summer, 1999.
- "Ownership and Motivation: What Does Ownership Mean to Employees?," *The Ownership Culture Report,* Vol. 1, No. 4, Cambridge: Ownership Associates, Winter, 2001.
- *The Ownership Culture Profile: Sample Feedback from the OCS*
- "Nothing Measured, Nothing Gained": published in the January/February, 1998, issue of the *Employee Ownership Report*, the newsletter of the National Center for Employee Ownership
- "Ownership Theory: Rights and Responsibilities": from the *F.E.D. 1996 Annual Journal*
- "Employee Ownership and Industrial Relations," published in the April, 1997 issue of *Perspectives on Work*.
- *The Four Challenges of Building an Ownership Culture*, the text of a speech delivered in October 1997 to the Slovene Association for Employee Ownership.
- "Representative Structures in Employee-Owned Firms": from the Spring, 1995 issue of the *Journal of Employee Ownership Law and Finance*

Many of these resources are available on our world-wide web site, at www.ownershipassociates.com.

The *Ownership Culture Reports* is a series of working papers on ownership culture, drawing on our database of Ownership Culture Survey™ results. It serves as a resource for decision makers at employee-ownership companies, and is free of charge.

END NOTES

[1] Kardas, Peter, *Comparing Growth Rates in Employee Ownership Companies to their Participatory Competitors*, Washington State Department of Community Development, Olympia, WA, February, 1997, p.i, 4.

[2] *Employee Stock Ownership Plans: Little Evidence of Effects on Corporate Performance*, U.S. General Accounting Office, PEMD-88-1, October, 1987, p.3.

[3] See Quarrey, Michael and Corey Rosen, *Employee Ownership and Corporate Performance*, Oakland: National Center for Employee Ownership, December, 1996 for a compendium of research.

[4] *Self-Direction and Employee Ownership*, Cambridge: Ownership Associates, July 10, 1998.

[5] *Project Update: Sample newsletter and survey results*, Cambridge: Ownership Associates, September 2, 1997.

[6] Rodgers, Loren, "What Do Employee Owners *Really* Think About Ownership?", National Center for Employee Ownership Webpage (www.nceo.org/columns), January 1999.

[7] See "Trust and Ownership: Trust in managers and trust in employee-ownership plans," *The Ownership Culture Report*, Cambridge: Ownership Associates, April, 1998.