The Ownership Culture Report
Number 1: May 8, 1998
a resource for decision makers at employee-ownership companies

Trust and Ownership

Trust in managers and trust in employee ownership plans

While trust is important in any organization, employee-ownership companies are a breed apart. Employee-ownership companies require a higher degree and quality of trust than conventional companies do. Before exploring trust in depth, we begin with two principles.

First, ***trust is a prerequisite to building an ownership culture***. An ownership culture exists in a company where employees think and act like owners. Building an ownership culture requires that people change the way they behave, and move from comfortable patterns to challenging new roles. People must trust one another, and in particular frontline employees must trust managers, before they will risk change.

Second, ***trust comes in different forms***. Trust is not a unitary concept and different types of trust need to be managed in different ways. The body of this article explores the two major types of trust that are of special relevance in an employee ownership context.

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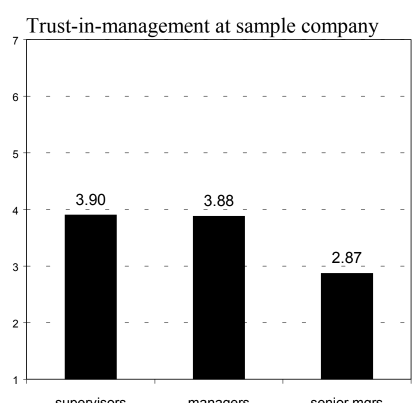
Types of Trust

This report focuses on two types of trust: ***trust-in-management*** and ***trust-in-ownership***. While the two are conceptually similar, results from the Ownership Culture Survey™ (see back page for details) indicate that they are distinct in practice. There is a correlation between them, but it is a modest one (r=0.31).

Within the category ***trust-in-management*** we find a cluster of issues related to a key concern: employees have different degrees of trust in different levels of management. At every company for which we have data, people have the highest degree of trust in their supervisors. The level of trust declines as one moves up the organizational chart.[1] In some companies, such as the one in the chart below, the trust decreases almost imperceptibly from supervisors to middle managers, then drops off dramatically for senior managers.



The difference among levels of management does *not* mean that the scores are unrelated. In fact, the three levels of trust-in-management are very highly correlated,[2] suggesting that a common factor underlies them all. In other words, actions by one level of management affect employees' trust in all levels.

The second type of trust that is relevant to building an ownership culture is ***trust-in-ownership***. Trust in ownership is the belief that the ownership plan is legitimate and in a participant's interest. A common motivational goal of an employee-ownership plan

These Reports are intended to serve as a resource for decision makers in employee-ownership companies, including companies with ESOPs, stock option or stock purchase plans, and partnerships. See back page for information on this series of working papers, the Ownership Culture Survey™, and the conceptual framework that organizes these Reports.

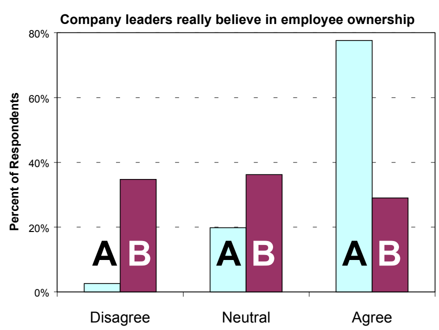
(EOP)[3] is to encourage people to act in the company's interest. The fact that they *will* benefit from doing this is irrelevant unless they *believe* they will benefit. In other words, having a plan in place will not motivate people unless they trust the plan.

Employee ownership plans, by virtue of involving deferred compensation instead of immediate cash or feedback, require an unusually high degree of confidence on the part of participants.

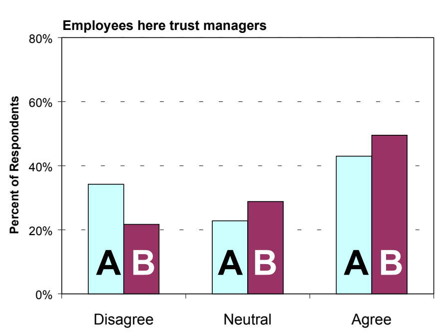
Comparative Results

The following comparison of two companies with contrasting trust profiles illustrates trends we have observed in the survey data. The following charts show Company A in gray and Company B in black.

As you can see with this sample survey item, Company A has a much higher degree of trust-in-ownership—A's composite score on this measure was 70, while B's was only 48.[4] (All scores are on a 0-100 scale.)



The trust-in-management scores, however, are much different: Company A had a score of 52 while B had 61. The companies' positions are reversed, illustrating that the two types of trust are distinct.



It is also interesting to compare these two companies' scores on other variables. Their job satisfaction scores are roughly the same, but employees at Company A are much more likely to see themselves as owners and to feel positive about the information flow at their company. In contrast, employees at Company B have a higher opinion of company fairness, and they are more likely to see themselves as working hard.

These results are typical of relationships we have seen at other companies, summarized below:

Trust-in-management *is positively related to*	**Trust-in-ownership** *is positively related to*
job satisfaction	job satisfaction
commitment	commitment
perceived fairness in job evaluations	access to company information
perceived pay fairness	opportunities to learn
willingness to work hard	seeing oneself as an owner
willingness to work extra when needed	perceived importance of ownership

The data do not prove a *causal* relationship among these variables, but they are suggestive.[5] It appears that trust-in-management is related to management-employee relations generally, while trust-in-ownership is linked primarily to training, access to information, and EOP understanding.

Trust and Understanding

Understanding of the EOP is consistently among the most important variables in the dataset, and it is in the case of trust as well. From a theoretical point of view, it makes sense that people will not be motivated by an EOP until they trust it, and that they will not trust it until they understand it.[6]

In fact trust in ownership appears to be based on two components: trust in managers, and understanding of the EOP. Regression analysis indicates that both trust in managers and understanding of the EOP are significantly related ($p=.001$) to trust in ownership.[7]

Management Implications

The survey suggests the following rules of thumb for managers in employee-ownership companies.

Manage the different types of trust. Based on your company's circumstances, it may be more effective to focus on trust of management or on trust of ownership.

Never neglect trust. As a foundational issue, poor trust undermines otherwise well-designed policies. Take care to bring all levels of managers, including supervisors, "on board"—one weak link diminishes the entire management team.

Trust is intimately connected with understanding. Misconceptions and rumors are the source of much mistrust. If employees understand the plan, they are more likely to trust it and more likely to think and act like owners.

Managers should be visible. People should know their managers and understand their jobs. The data indicate that people trust the managers with whom they have the most contact.

One interesting postscript to the data presented here is that the relationships among the variables are much stronger at the inter-company level than at the inter-respondent level. For example, a *person* with a higher trust in ownership score is *somewhat* more likely to feel like an owner. But a *company* with a higher aggregate trust in ownership score is *much more likely* to have employees who feel like owners.

A possible explanation for this distinction is that different individuals' expectations blur the individual-level relationship, while for the company as a whole, individual expectations tend to cancel each other out. One implication is that efforts to increase trust, even if they have no immediate apparent effect on the target audience or the most vocal employees, are likely to have an impact on other people in the company.

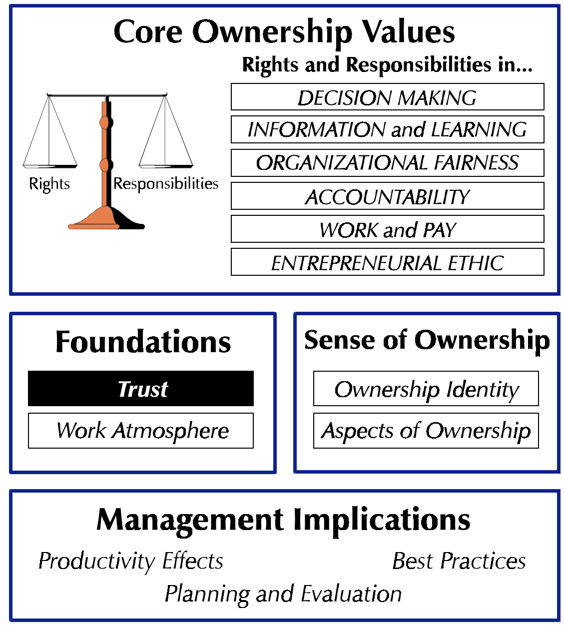
Trust in Context

This graphic represents the "working parts" which constitute our framework for ownership culture development. The *Ownership Culture Reports* will consider all of these issues and the relationships among them. We will periodically revisit issues to explore them from different angles and to highlight insights resulting from new data.

This Report addresses Trust, a Foundations issue. We believe that Foundations issues in some senses precede other tasks in building an ownership culture. A degree of trust allows employee-owners to take risks and change their behavior patterns. Absent trust and a positive work atmosphere, even well-designed and well-intentioned efforts are less likely to attain the desired results. Change without trust is too risky.

Trust has a tight connection with many of the other issues in this graphic. The body of this Report discusses the relationship between trust and work atmosphere, ownership identity and information and learning.
The next *Ownership Culture Report* will focus on Decision Making, which requires a high degree of trust on the part of both managers and employees.

The Culture Framework



The Ownership Culture Survey™

The Ownership Culture Survey™, or OCS, is an employee attitude survey designed specifically for employee ownership companies. It is the source for much of the raw data discussed in the *Ownership Culture Reports*. The OCS draws on years of consulting experience with employee-ownership companies. It consists of roughly 60 survey items, concentrated on the Core Ownership Values, Foundations, and Sense of Ownership components in the graphic above. The results presented in this report are based on a database of roughly 2,000 respondents from eight employee-ownership companies spanning a variety of types of ownership plans, industry sectors, and sizes.

For articles and resources on the subject of ownership culture and employee ownership in general, or for more information about the OCS, including scale reliability information (Cronbach's alpha for each measure and factor analysis results), contact Ownership Associates, Inc. at

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End Notes

[1] The one exception is a company in which the organizational structure is more matrix than hierarchical, making this comparison between supervisors and middle manages less clear cut.
[2] The correlation coefficients are 0.52 (for senior managers: supervisors), 0.66 (for senior managers:middle managers) and 0.72 (for supervisors:middle managers). All are significant beyond the p=0.001 level.
[3] We use the generic term "EOP" in order to include companies with a wide range of employee-ownership plans: ESOPs, stock bonus or stock purchase plans, stock options, partnerships, and employer-vested 401(k) plans.
[4] The trust-in-ownership measure is a composite of survey items aimed at different aspects of this issue.
[5] Specifically, Company A and Company B are different in terms of the sizes of their work forces, the durations of their EOPs, and their industry sector.
[6] What constitutes a sufficient understanding of an EOP will be the subject of future issues of the Report.
[7] The regression was significant at the 0.001 level and had an R^2 of 0.20. The standardized coefficient of trust in managers was 0.32 (with significance at p=0.001) and the coefficient of understanding was 0.30 (with significance at p=0.001). In this case, the dependent variable was EOP Trust, a composite of survey items dealing with trust-in-ownership.