The Ownership Culture Report
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a resource for decision makers at employee-ownership companies

Ownership and Motivation

What Does Ownership Mean to Employees?

Research over the last 25 years is clear: employee ownership can motivate employees and improve company performance, but only under certain conditions. The challenge is to determine what those conditions are as accurately as possible. If employee motivation is part of the answer, then one approach to this challenge is through organizational psychology. The psychological perspective assumes that the way people ***interpret*** ownership has a more direct impact on company performance than legal structures or vision statements do. Leaders therefore need reliable information about what ownership means to employees.

Over the past six years we have built a database on ownership interpretations, as well as their attitudinal and behavioral effects, using the Ownership Culture Survey™, or OCS. This *Report* shares OCS data suggesting that the motivational power of ownership depends both on its effectiveness as a financial incentive and on a deeper "culture effect." After reviewing the data, we propose five ways leaders can maximize the benefit their companies attain from employee-ownership.

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No one would deny that employee ownership is about sharing the financial benefits of company success. Many leaders believe that in the minds of employees it all comes down to cash, either current or deferred. Our data indicates this is not the case. The power of ownership seems to arise from harnessing both the financial and the non-financial aspects of employee ownership. The data summarized here suggests that, at its most effective, ownership gives employees not just a financial reason to perform but a reason to belong.

Defining Ownership

Many company leaders appreciate that a shared definition of ownership is needed if employee ownership is to make a positive behavioral difference. They frequently attempt, either consciously or by default, to promote a definition of ownership based on the legal documents which state the parameters of the company's ownership plan.

Unfortunately, the word "ownership" has a myriad of meanings in the minds of employees—and the plan documents are only one input among many. One study of the psychology of ownership concludes: "culturally and behaviorally grounded conceptions of ownership may not coincide with explicitly legalistic conceptions."[1] It is not the legal definitions but the "living definitions" of ownership that affect employee perceptions of the plan, of the company, and of their own roles. Since these perceptions are the raw material of group behavior, company leaders must work with and, where necessary, challenge employee interpretations of ownership.

Varied and contradictory ownership interpretations are reflected in responses to the Ownership Culture Survey™ (or OCS), a survey-based approach to measuring the psychology of ownership. For example, the OCS asks employees what first comes to mind when they think of employee ownership. A sampling of the responses include: "investment," "incentive," "teamwork," "bogus," "equality," "a good benefit," "employee involvement," and "what *is* it?"

In other words, the primary association with ownership

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 www.ownershipassociates.com or page 4 for information on this series of working papers, the Ownership Culture Survey™, and the conceptual framework that organizes these Reports.

can be any one of a vast array of meanings: participation in decision making, a benefit plan, camaraderie, short-term financial payoff, long-term financial payoff, a gimmick, a chance for egalitarianism, and an unknown. The potential for disparate opinions is greatest in large companies with multiple locations and diverse work forces, but even in small companies conflicting interpretations of employee ownership can be substantial. The responses quoted in the paragraph above, in fact, are drawn from one of the smallest companies to take the OCS, with fewer than 50 employees.

Based on our work with employee ownership companies over the last 14 years, we have identified five major aspects of ownership—most people in the United States are likely to define employee ownership of a company using some combination of the following five meanings:

- **Financial Payoff**: some people see ownership as a financial benefit—as owners, they expect at some point to receive cash value.
- **Participation**: some people want to be included on the decisions that affect their day-to-day work; they want to have a say over the issues that affect their working conditions.
- **Influence**: some people want to have a part in broader, company-wide decisions. They want a degree of influence over strategic issues.
- **Community**: some people want to feel a bond with their fellow owners; they want to feel that the whole company is "in this together."
- **Fairness**: some people primarily want to be treated fairly by the company; they want sensible rules and they do not want "special treatment" for specific individuals.

The Data

The findings reported here come from 4,110 employees at 17 employee-ownership companies that have completed the Ownership Culture Survey™. One part of the OCS asks respondents to rate the importance of each of the five aspects of ownership listed above. Respondents give each of these aspects a score from one to ten, where ten means that aspect is very important to them, and one means it is not at all important. Not surprisingly, respondents report that all five aspects are important—the average scores for all items are above 7.0 at a majority of OCS companies.

The most interesting and consistent feature of people's answers is that fairness is clearly rated as the most important, as seen in **figure 1**.

In fact, no matter how we analyze the data, people overwhelmingly rank fairness as most important. That's true for managers and non-managers, new employees and long-term employees, men and women, young and old, high paid and lower paid. It even holds for people we identified as cynics.

Figure 1 also indicates that influence is consistently rated as the least important of the five aspects. It is less important than a related concept: participation. In other words, employees seem to place more value on having input in decisions that affect their daily work experience (participation) than on global, "strategic" decisions (influence).

One surprising pattern emerges over and over in the data: middle managers and supervisors tend to rate these meanings of ownership as less important than other employees do, including senior managers.[2] For most people, middle managers are the "face" of the company, and an ownership culture will be almost impossible without their active support.

The Incentive Effect

Many companies implicitly use a model that assumes that the financial aspect of ownership is the most important. They assume that ownership is, primarily, an incentive that aligns employees' interests with company interests. To a great extent this is true, and it is this financial alignment of interests that we term "**the incentive effect**."

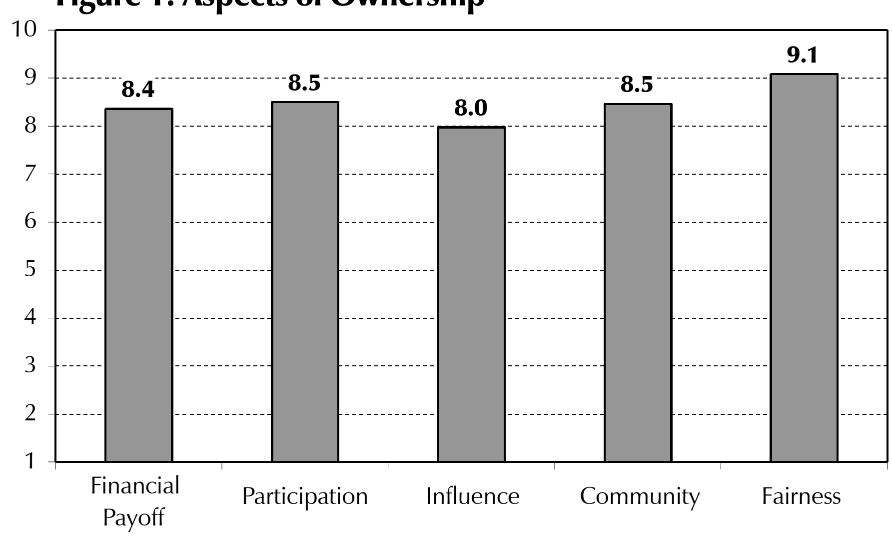
The incentive effect reflects the capacity of employee ownership to give employees a monetary reason to perform their jobs well. It plays an essential role in motivating employees because it gives each employee an individual profit motive to promote company success and its stock value.

The incentive effect is also crucial for a second reason. Previous research indicates that employees will not feel psychological ownership until they trust that they will share in the financial benefits of ownership[3]—i.e., until they feel the incentive effect.

Some companies do not expect employees to feel like owners. They may want nothing more than a new way to motivate employees, and they expect this motivation to follow automatically from the stock plan. In practice, however, the existence of equity-based incentives does not necessarily translate into changed motivation. Many ownership plans stumble in the face of distrust and cynicism.[4] The incentive effect only exists under the right conditions, and companies are wise to invest sufficient resources to educate the work force and to communicate the details of their stock plan.

The incentive effect is likely to be strongest in companies that offer short- or medium-term rewards, such as stock-

Figure 1: Aspects of Ownership



options, gainsharing, or profit sharing. In some cases, however, these incentives can actually be too powerful—the short-term incentive can overwhelm concern for the long-term viability of the company, resulting in a "casino mentality" where employees' primary loyalty is to their own short-term financial well-being. The most powerful formula for success seems to involve a combination of short-term incentives, long-term incentives (such as an ESOP) and a culture that involves people beyond the purely financial level.

The incentive effect can be created by non-equity-based bonus or retirement plans that mimic the cash flows of equity ownership. However, one final point to draw from figure 1 is that the financial aspect of ownership is ***not*** the top priority identified by most respondents. The other aspects of ownership, which we call "the culture effect," are explored next.

The Culture Effect

While the incentive effect can be simulated by non-ownership compensation tools, the ***culture effect*** is unique to employee-ownership. It is a deep connection to the company, a relationship based on more than money. Ownership can give employees a reason to belong to the company. The culture effect is the result of psychological ownership, and only exists in companies that actively nurture a sense of ownership in the work force.

We have suggested elsewhere that an ownership culture has multiple dimensions, including access to information, a degree of input into decisions, a sense of organizational fairness, and an entrepreneurial outlook. Each of these dimensions entails a balance between the rights granted to employees and the responsibilities they accept. More detail about ownership culture is available in other publications[5] but here we focus on one piece of ownership culture: fairness, which the data in figure 1 indicates is of central importance in how employees conceptualize ownership.

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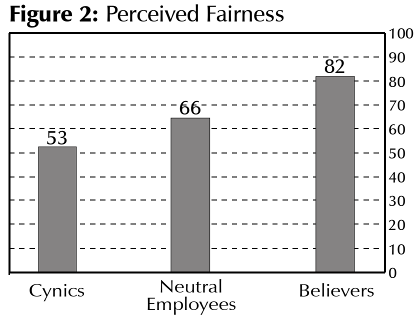
Figure 2 supports the same conclusion. There is a strong negative relationship between cynicism and perceived fairness. (Here fairness is measured by an OCS item which asks to what extent respondents agree that "overall, this company is fair to its employees."[6])

Figure 2: Perceived Fairness



The differences among these groups are based on data from over 2,500 employee owners and is highly statistically significant. This relationship is correlation, not causal, but it implies that companies interested in the benefits of the culture effect would be well advised to focus on fairness.

Why should companies bother with the culture effect? The incentive effect is necessary, but the real power of employee ownership results from the culture effect. Studies indicate that by itself ownership has an uncertain impact on company performance. An ethic of involvement in the company is needed to change behaviors. One researcher wrote 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."7 This conclusion is also consistent with the data reported here about the secondary importance of the financial aspect of ownership.

Management Implications

The data suggests five steps leaders may wish to consider in their own companies.

Focus on fairness.

Companies should make an explicit effort to seek out and address the fairness concerns of the work force. Consider reacting to concerns either through policy change or communicating the principles behind policies that are perceived as unfair. Pay special attention to perceived special treatment and favoritism. In general, fairness is likely to be an effective theme in company communications. Companies should consider explicitly using ideas of fairness in their presentation of the rationale for their ownership plan.

Support middle managers and supervisors.

Middle level managers often need substantial support before they change their perceptions of ownership. Companies which have not yet started their transition to employee ownership may want to involve supervisors and middle-managers in the design process in order to ensure that they support the final product.

Plan employee participation.

Especially in the early stages of employee-ownership, companies are wise to focus on involving people in local decisions (at the level of the department, work group, or even the individual work site) rather than more company-wide concerns. Involvement at the strategic "global" level often becomes important over time, and it does have powerful symbolic effect, but it is the day-to-day issues which are likely to have the greatest immediate effect on most people's attitudes.

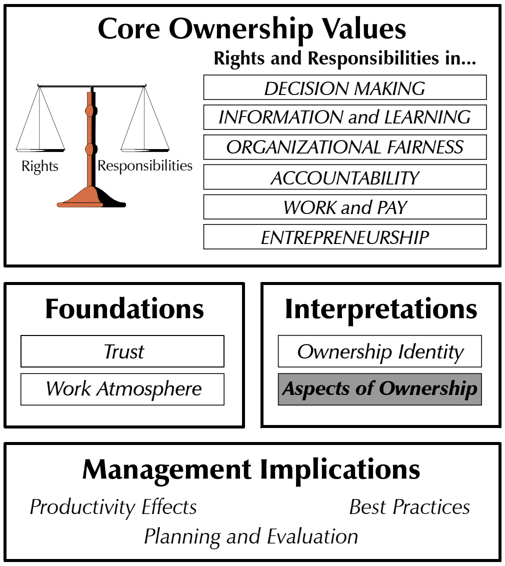
Link company programs to ownership.

Ownership can be a "glue" to tie various company programs (bonuses, safety initiatives, work redesign, hiring procedures, benefit packages, and communications programs) together into a coherent whole.

Ask people what they want from ownership.

Find a systematic and psychologically safe way for people to express what ownership means to them. This will allow you to tailor various features of the ownership plan to the particular needs of your work force and to track changes over time. If you make changes based on this input, tell people that the change was made because they said they wanted it. Linking the change to their input can be just as important as the change itself.

Ownership and Motivation in Context



This graphic represents our operational definition of ownership culture. 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 is primarily based on the *Aspects of Ownership*, part of the Interpretations section of the graphic to the left. Issues of interpreting the meaning of ownership within an organization are also covered by Ownership Identity, and by specific topics such as ownership cynicism. ("Ownership Cynics," *Ownership Culture Report*, No. 3.)

The ideas under Aspects of Ownership and in this Report have clear relations and implications for other elements of ownership culture. For example, the *Ownership Culture Report* titled "Participation: Decision Making and Employee Ownership" (No. 2), discusses the distinction between influence and participation briefly identified in this *Report*. A future issue will explore perceptions of fairness.

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 4,110 respondents from seventeen recent employee-ownership companies spanning a variety of types of ownership plans, industry sectors, and sizes.

For free articles and resources on the subject of ownership culture and employee ownership in general, or for more information about the OCS, contact Ownership Associates, Inc. at

122 Mt. Auburn Street
Harvard Square
Cambridge, MA 02138
Tel: 617-868-4600
Fax: 617-868-7969
email: oa@ownershipassociates.com
www.ownershipassociates.com

End Notes

[1] Rudmin, F.W., and J.W. Berry, "Semantics of Ownership: A Free-Recall Study of Property," *The Psychological Record,* Vol. 37, 1987, p. 257.

[2] There are two exceptions to this generalization. First, senior managers give *influence* a lower importance rating than middle managers and supervisors do. Second, middle managers and supervisors are essentially tied with non-managers on the importance of *community*. Otherwise, the middle managers and supervisors have the lowest scores among these three employee groups.

[3] "Trust and Ownership," *Ownership Culture Report*, No. 1.

[4] "Ownership Cynics," *Ownership Culture Report*, No. 3.

[5] See *Building an Ownership Culture*, a curriculum available from Ownership Associates, or "Ownership Theory," an article available on the world-wide web at *www.ownershipassociates.com*.

[6] Respondents are categorized as cynics, neutral employees, and believers based on a method described in "Ownership Cynics," *The Ownership Culture Report*, vol. 1, No. 3. In this chart, the category "cynics" includes both types of cynics identified in that article: situational cynics and ideological cynics. The difference between the two groups of cynics on this fairness item is not statistically significant. Fairness will be the subject of a future *Ownership Culture Report.*

[7] 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.