
Unleashing the Power of Employee Ownership

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This research report was written by Hewitt Associates, who recently conducted a broad study of employee-owned firms to determine methods of achieving an optimal mix of participatory involvement, communication, and shared responsibility in achieving a maximum value from equity compensation programs. This report has been edited to be published in the Foundation for Enterprise Development's E-zine, Leading Companies. For a complete copy of the research report, or further information on this study, please see the contact information at the end of this report.

Unleashing the Potential of Employees

This remark by the CEO of a spin-off of a Fortune 500 company reflects a new perspective that is transforming the landscape of business, a growing belief that employee engagement and ownership drives business results. This is no surprise. Many companies have growth strategies that depend on the commitment and engagement of their workforce. These companies are reassessing traditional notions about employment and experimenting with broad-based employee ownership. As a result, a new concept of ownership is emerging: one that focuses on the connections between shareholders, managers, and employees. Hewitt Associates, in cooperation with other research partners, is leading and advancing this research by investigating an emerging phenomenon we call the Ownership Dynamic.

The Ownership Dynamic

The Ownership Dynamic is a concept that has emerged from Hewitt's consulting over the past several years. It argues that the power of an ownership culture is derived from the number and strength of the connections between people, information, and action. These connections multiply and are strengthened by three factors: the strength of a shared investment or a common stake for all employees, business information that is accessible and understandable, and broad-based influence and decision-making throughout an organization. The Ownership Dynamic is a simple formula: Ownership Dynamic = Shared Investment x Information x Influence. Experience reveals that the value of the Ownership Dynamic is not additive. "Employees can see that our collective hard work and good results lead to stock price appreciation." President & CEO, Computer Hardware Company.

Investigating the Ownership Dynamic

This research report is the first in a series that will share information about companies that are successfully creating an ownership culture. Our goal is to link our employee ownership consulting with specific measurable results. Through research, we plan to explore broad-based employee ownership and test three hypotheses that have emerged from our consulting

An Ownership Dynamic Optimizes an Organizations Ability to Adapt and Thrive

Our preliminary research suggests a connection between an Ownership Dynamic and a company's financial success. Long-term financial success is one measure of an organization's ability to adapt and thrive. Through our research partnership with Professor Hamid Mehran of the J. L. Kellogg Graduate School of Management at Northwestern University, we have begun to investigate our hypothesis that an Ownership Dynamic contributes to the long-term financial success of an organization. Through our consulting, we have seen how shared ownership can create connections between internal and external owners. A shared measure of success that crosses an organization's boundary, such as stock price, provides an "early warning signal" to employees when the market loses confidence. The Ownership Dynamic becomes a catalyst for necessary change, either a change in business strategy or a plan to communicate more effectively with outside shareholders.

An Ownership Dynamic is Created by Continuously Strengthening and Balancing Each Factor: Shared Investment, Information, and Influence

Organizations that focus on only one factor in the Ownership Dynamic are likely to fail in creating an ownership culture. Simply granting stock options to employees without providing access to good business information will not create a meaningful sense of ownership. Similarly, without a strong common financial stake, self-directed work teams can become fragmented and disillusioned. An Ownership Dynamic is created through the strength and balance of all three of the factors: shared investment, information, and influence. Each factor is necessary, but not sufficient, to unleash the power of the Ownership Dynamic. The responses to our survey suggest that successful companies recognize the importance of all three factors. It suggests that these companies understand that a financial stake, by itself, does not create an Ownership Dynamic "Employee-owners see things differently, they take appropriate risks, they do what it takes to make the business grow, they are not satisfied with being average."

An Ownership Dynamic Creates Connections Between People, Information, and Action

Organizations are complex systems that derive their power from connections between people, information, and actions. In complex systems, the power of the whole is greater than the sum of its parts. An Ownership Dynamic reflects the same principles. Its power is more than the sum of shared investment, information, and influence. Its power is the product of the connections between people, information, and actions. We intend to investigate the tendency of an Ownership Dynamic to transcend boundaries and grow connections. Significant correlations within our survey suggest the companies in our study have established these connections. Our next step is to investigate how.

Key Findings

The research used for this report begins to test our observations and suggests avenues for future research. Our initial study included two components. First, we examined the financial performance of 382 companies that adopted an employee stock ownership program. We also sent a separate survey to the senior management of these companies, along with 230 additional companies with broad-based employee stock ownership programs, to elicit information about employee influence on decision-making and company information sharing. Our key findings are as follows:

Adapting and Thriving

Companies that instituted employee stock ownership plans experienced, on average, a greater return on assets (ROA) compared to their industry peer group for each of the four years following the year of the adoption. These companies also had an average greater total shareholder return (TSR) compared to their peer group over the four-year post-adoption period. The results seem to suggest that a financial stake, denominated in stock, makes a difference. Our next step is to investigate relationships between ownership concentration, form of ownership, and financial performance.

Strengthening Information Sharing

When asked about the access of most employees to business information, the top two areas cited are financial results and business unit strategies. While information on corporate strategy and industry environment are provided less often, still 70% of the companies provide access to information in these areas. A similar pattern is seen in employee training. Business unit strategies, customer expectations, and financial results are the most frequently cited areas for broad employee training. These preliminary results suggest a relationship that is intuitive: information sharing needs to be linked to training. We intend to investigate this link further.

Connecting to Employee Actions

Companies reported that employees' use of information to positively impact business results is strongest in the areas of customer expectations and business unit strategies. This, once again, suggests a relationship between information sharing, training, and employee impact on business results.

Connecting to Results

Of the companies reporting that employee ownership improved business results, there is a positive correlation between employee access to information and business results: and, more importantly, that employees used such information to positively impact business results. We need to investigate how

Connecting to Ownership Attitudes and Behaviors

When asked about ownership behaviors exhibited by employees, the most frequently cited example was employees "speaking with pride about the organization." Nearly all of the companies reported that senior and middle management demonstrated this ownership behavior either some or most of the time, while about ninety percent of supervisors and other employees did the same. However, these same companies reported significant differences among employee groups acting like owners "most of the time." Ninety-three percent of the companies reported consistent ownership behavior among the executive group, while only two percent of companies reported similar behavior for the union groups.

Creating the Dynamic

The surveyed companies told us that the top three contributors to ownership behavior are "commitment/loyalty to the organization," "sharing business information," and "support from senior executives." None of these can be attributed to a single program or policy. They are the result of complex interactions. The same is true of the barriers to ownership behavior. The top barriers include "messages conveyed by the culture," "concerns about individual financial security," and "sharing business information." The results confirm the importance of environmental factors in creating an Ownership Dynamic. This leads us to question the relationship between an Ownership Dynamic and organizational culture. Our future research will explore this question.
