The Ownership Culture Report
Number 2: September 17, 1998
a resource for decision makers at employee-ownership companies

Participation

Decision Making and Employee Ownership

Employee-ownership companies each choose their own levels and kinds of participation, but they all must manage people's *expectations* about decision making. Drawing on their day-to-day experience owning goods and other property, employee-owners expect a degree of decision-making authority. In fact, one academic commentator notes that "it would not be uncommon for the employee-owner to *equate* ownership with governance."[1]

Companies that manage decision making explicitly and wisely can, over time, tap a greater share of their work force's human potential. Companies that do not consciously address people's expectations may well find increasing cynicism and distrust. This article provides conceptual tools and hard data to better manage decision making.

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Rights and Responsibilities of Decision Making

The desire to have a degree of input in decision making almost invariably arises when ownership of a company is broadly shared with employees. The expectation of a right to participate in decisions is deeply rooted in Western beliefs about ownership, and, by extension, employee-ownership.

Decision making, however, is a complex, multi-dimensional issue. While people may be clear that they expect increased authority to make decisions, they may be less clear about the full meaning and implications of such authority.

Data collected from the Ownership Culture Survey™ or OCS (see page 3 for details) suggest that a central feature of decision making that many people overlook are the specific ***responsibilities*** that decision-making authority entails. While ownership often does bring new rights, responsibilities are equally important to a healthy ownership culture.

The concept of ***balance*** is central to our model of ownership culture. An ideal ownership culture has strong decision-making rights paired with strong decision-making responsibilities. Figure 1 illustrates measures of decision making from eight companies in the OCS database. Each pair of bars represents one company: the bar on the left represents its "rights score" and the one on the right side is its "responsibilities score." (100 represents the maximum.)

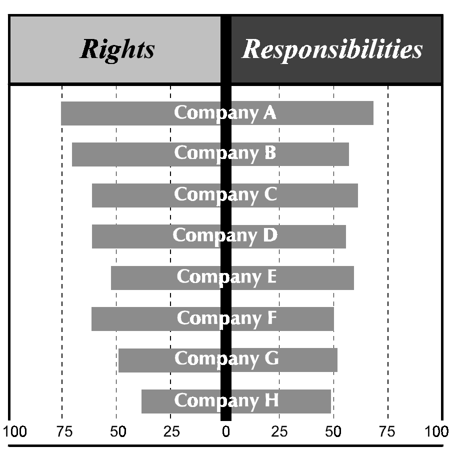


Figure 1

The graphic suggests that companies with higher rights scores tend to have higher responsibilities scores as well. (The correlation coefficient is 0.71.) While this analysis is correlational and not causal, these results are

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.

consistent with our theoretical orientation that rights and responsibilities tend to mirror one another. Figure 1 also shows companies that are "out of balance." Companies F, G, and H have nearly identical responsibilities scores, but different rights scores. Company F is slightly "rights heavy," company G is balanced (though not strong), and company H is slightly "responsibilities heavy." Our experience suggests that companies F and H are experiencing particular dissonance that needs to be addressed. We will return to company H below.

Components of Participative Decision Making

Given the complexity of the decision-making process, the OCS separates it into components. Specifically, we posit two types of decision-making responsibilities and three types of decision-making rights.

The first responsibility of decision makers is to take their authority seriously. We call this ***"active voice***." They should invest the time, energy and thought required to make the best decision possible. They need to commit to attending meetings, gathering information, and investigating alternatives.[2]

The second responsibility borne by decision makers is "***responsible voice***," the key component of which is recognizing other people's expertise.[3] There need to be clear and accepted boundaries between decision makers, recalling Robert Frost's familiar aphorism that "good fences make good neighbors." With any given decision, it should be clear to all concerned who makes the final call, who provides input and who receives information after the fact.

Producing this clarity is a major ownership culture challenge. This challenge is a process that involves changes in both structures and attitudes. A set of training materials called *Frontiers and Boundaries: Managing Ownership Expectations* elaborates on the structural dimensions of this approach, which we label "Corporate Constitutionalism."

The kinds of decisions over which employee-owners potentially have rights fall into three categories.[4]

1. ***Autonomy*** refers to decisions relating to the performance of day-to-day job activities. Every day, employees make choices about rework, production speed, and prioritization of tasks—this is the area they should expect the most freedom to make decisions.[5]

2. The second category is ***participation***, which refers to input over local decisions. Depending on the company, this might be at the level of work team, division, or shift, and can include activities such as team hiring or planning work flow.[6]

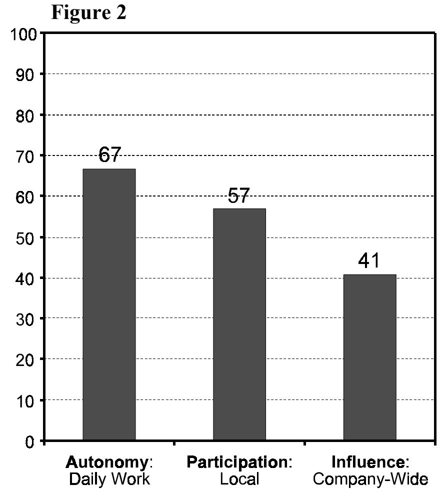
3. By ***influence*** we mean company-wide decisions, such as acquisitions or strategic direction. Non-managers should generally expect to have the lowest level of input on these issues.[7]

The justification for employees having most control over decisions closest to their own jobs is based on two principles. *First, people should contribute to those decisions which they will directly implement. Second, they should contribute to those decisions which they best understand.*

The Ownership Culture Survey™ measures the three types of decision making. Figure 2 shows the overall scores for *Autonomy*, *Participation*, and *Influence* for the companies in the OCS database. In each case, the scores represent the extent to which employees perceive themselves as exercising these rights. Each score consists of a composite of several survey items—see the end notes for examples of the specific items used.

As expected, the chart shows that scores do tend to be highest for autonomy, lower for participation, and lowest for company-wide influence.

Figure 2



Management Implications

A brief case study will illustrate these components of decision making and how understanding them can promote effective management. We return to company H, the responsibilities-heavy company of Figure 1. Employees at company H sensed that, despite their motivation and abilities to contribute to the company's decision-making process, they were largely excluded.

Breaking decision-making rights down into components helps clarify the situation. *Participation* scores were relatively strong. (Plant managers had recently involved people in work scheduling.) On the other hand, *Autonomy* and *Influence* scores were both very low. Supervisors were widely perceived as micromanaging, and the work force felt that strategic decisions "came out of a black box."

As a result, company H took two steps: first, they implemented training to help supervisors adjust to a new "coaching" role; second, they began inviting two employees each quarter to observe board meetings. The results of their actions are not yet clear, but managers are optimistic.

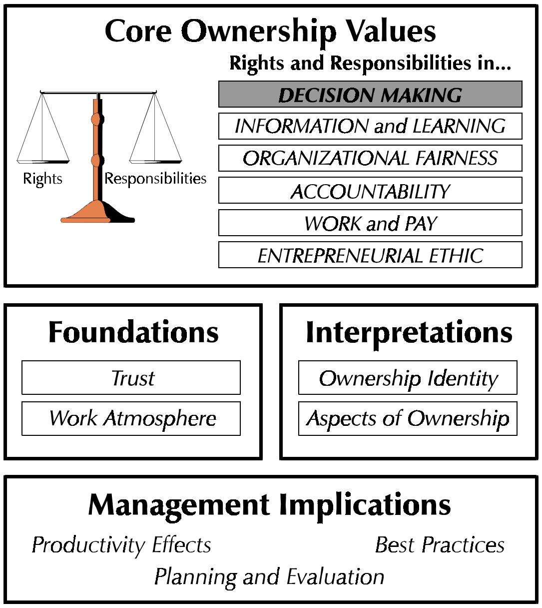
Survey results indicate a few general lessons for companies.

Building a participative culture is a multi-stage process. A company that hopes to develop a strong ownership culture will try to provide the opportunities and training needed to strengthen involvement at the levels of *Autonomy*, *Participation*, and *Influence*. Companies should, in general, begin with an emphasis on local decisions and gradually determine if they wish to expand into higher level decisions.

Participative decision making pays off. When involved in decision making, employees report higher levels of work effort, customer orientation, and problem-solving.[8]

Rights and responsibilities reinforce one another. They should advance in coordination to ensure that the company maintains balance, so employee-owners accept decision-making responsibilities while they enjoy new opportunities to use their skills and knowledge in improving their company.

Decision Making 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 decision making, the first category under the core ownership values. Leaders should remember that decision making is one part of a larger pattern and that the decision making processes at your company must be consistent with the other components of your culture.

Specifically, people cannot effectively participate unless they have suitable training and access to information ("Information and Learning"). Their decision making will not be appropriately motivated until they have internalized a business orientation to risks and rewards ("Entrepreneurial Ethic"). They are unlikely to become effective decision makers unless an appropriate degree of trust and a suitable work atmosphere exist at the company. (See the *Ownership Culture Report* No. 1, "Trust and Ownership.")

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 free 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] Pierce, Jon L., Stephen A. Rubenfeld, Susan Morgan, "Employee Ownership: A Conceptual Model of Process and Effects," *Academy of Management Review*, Vol 16, No 1, 1991, pp. 127-8.

[2] In the current version of the OCS, three items measure Active Voice. (For example, respondents are asked how strongly they agree with the statement "*People at [our company] actively contribute to group problem-solving efforts*.")

[3] An example of the three items in the Responsible Voice category is "*Employees [at our company] think that there are limits to the kinds of issues in which they should participate*."

[4] These categories are necessarily a simplification. See Mackin, Christopher, and Frederick Freundlich, "Representative Structures in Employee-Owned Firms," *The Journal of Employee Ownership Law and Finance*, Vol. 7, No. 2, Spring, 1995, pp. 91 - 115 for more details. (This article is also available on the world-wide web, at *www.ownershipassociates.com*.)

[5] One of the two Autonomy items is "*I feel I am too closely supervised—someone is always checking up on me*." This negatively worded item is reverse-scored—in contrast with the items above, disagreement with this item represents a higher score for the category as a whole.

[6] One of the three items in the Participation category is "*Supervisors resist when people try to participation in decisions*." This item is also reverse-scored. (See previous note.)

[7] One of the two items in the Influence category is "*Employees here have real influence over the direction of the company*."

[8] See "Self-Direction and Employee Ownership," an Ownership Associates Working Paper, July 10, 1998.