

OWNING THE WORK · CHAPTER NINE

Knowing Whether It Worked

Chapter Nine of Owning the Work

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Chapter Nine of Owning the Work. The whole book, with every chapter, is at business.hautelumiere.life/library/owning-the-work (DOI https://doi.org/10.5281/zenodo.23988988).

A NOTE BEFORE YOU READ

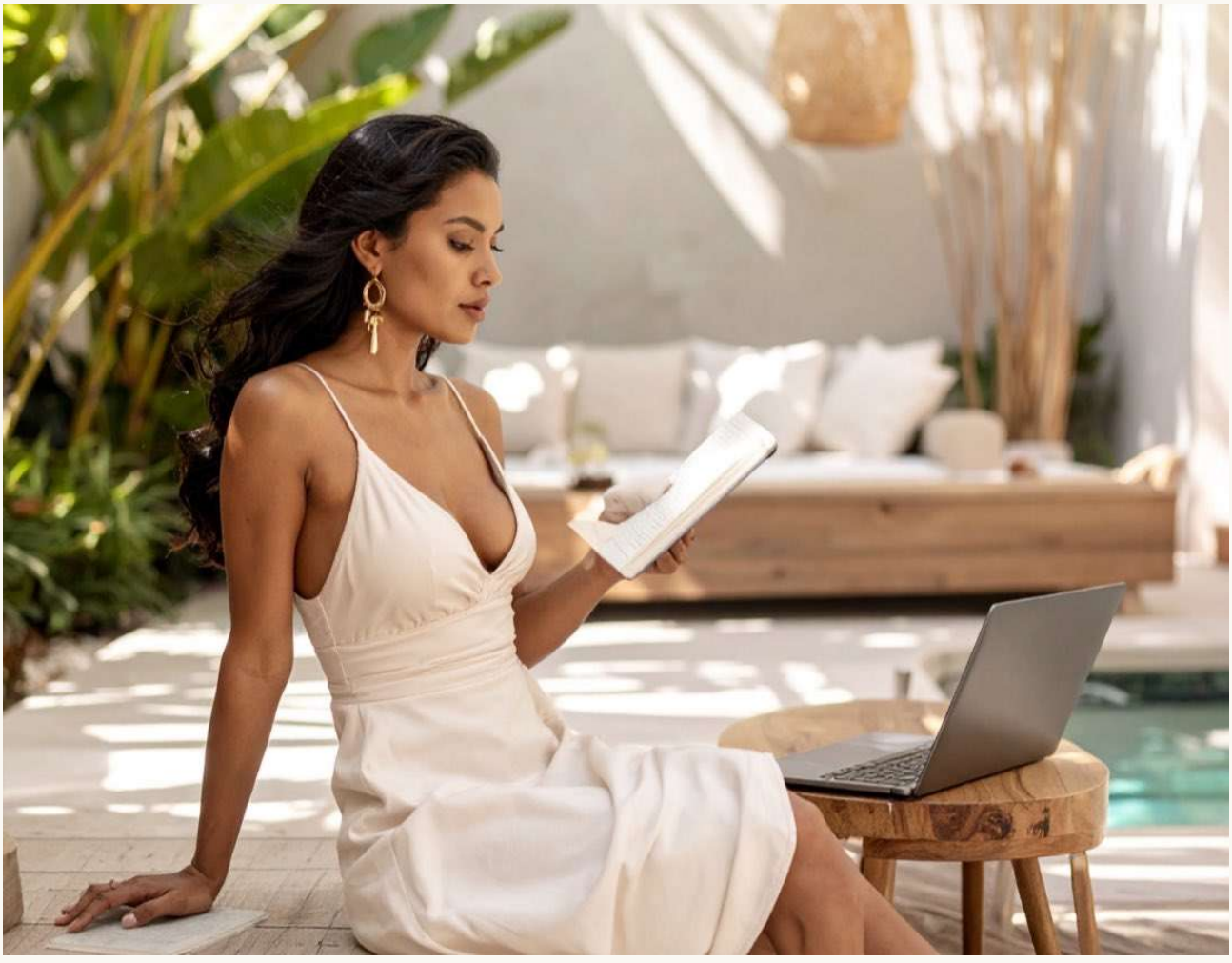
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ABSTRACT

A year after a firm begins sharing what it makes, someone will ask whether it worked. The question may come from a board, an owner considering the next step, a sceptical finance director or the people who received the share. It deserves a better answer than either of the two it usually gets: a productivity figure that went up and is credited to the plan, or a productivity figure that did not and is blamed on it. This chapter is about how to answer it honestly. It sets out what to count, how to read what is counted, and how to avoid the errors that make most internal evaluations of reward plans worthless. It draws on the methods of the research in this book, which are more careful than most firms' methods, and on the house's reading in Chapter 4, which suggests that some of the most important early signs are not financial at all.

CHAPTER NINE

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HAUTE LUMIÈRE · OWNING THE WORK · CHAPTER NINE

The question after the first payment

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ceived the share. It deserves a better answer than either of the two it usually gets: a productivity figure that went up and is credited to the plan, or a productivity figure that did not and is blamed on it.

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Ammanuel Santa Anna's *Ecstatic Economics* names the difficulty plainly. Measurement that counts only money pulls an enterprise back toward the pattern it set out to leave: "If a cooperative measures its success only in financial terms, it will gradually drift toward extractive behavior." And measurement that counts more than money is hard to design: "Designing such measurement systems is among the most important — and most difficult — practical challenges the movement faces." This chapter is an attempt at the hard part, for one firm.

Why the obvious answer misleads

The obvious way to evaluate a profit share is to compare the year after it began with the year before. If productivity rose, the plan worked. If it did not, it did not. Almost everything about this method is wrong, and it is worth saying why, because the errors are the same ones the research spends most of its effort avoiding.

The year changed as well as the plan. Demand, prices, staff, equipment and a dozen other things moved between the two years. A comparison of before and after attributes all of their effects to the plan.

The firm chose the moment. Firms tend to introduce sharing when things are going well, or when an owner is preparing to step back. Either can coincide with changes in performance that have nothing to do with the plan. Margaret Blair, Douglas Kruse and Joseph Blasi, in their study of employee-owned public firms, were careful to say that they could not separate the effect of ownership from the possibility that stable firms chose it. A single firm is in the same position, with less data.

Averages are not forecasts. Kruse's finding that adopting profit sharing was associated with average productivity increases of four to five percent in American public companies is an average across many firms. It does not say what any one firm should expect, and Kruse himself reported "no evidence on the mechanisms." A firm that did not see four percent has not shown that the plan failed; a firm that did has not shown that it succeeded.

One year is short. Kruse found that the increase in his sample was a step, "with no subsequent positive or negative trend." Other effects, on employment in downturns or on survival, can only be seen across a bad year, which may not arrive for some time.

The honest conclusion is that a single firm cannot prove, from its own figures, that its plan caused anything. What it can do is measure the right things, compare them sensibly, and learn whether the plan is doing what the evidence says plans like it tend to do when they are working.

What to count: four layers

The research in this book, and the house's reading of it, suggest four layers of measure. Each answers a different question, and a firm that counts only one is answering only one.

Layer one: the stitch

The first layer asks whether the conditions the research says ownership needs are actually present. It measures information and voice, the things Chapter 4 called the stitch. These are the measures most firms skip, and they are the ones most within a leader's control.

- Coverage: the share of all people working in the firm, including part-timers and long-term contractors, who are inside the plan.
- Information: how many times in the year the full set of agreed numbers was posted on time, out of how many promised.
- Questions: how many questions were raised at sessions or with the council, and how many were answered in writing within the promised time.
- Influence: the number of decisions in the year that changed because of something employees raised, each named.
- Understanding: the share of people who, in the anonymous audit, agree that they understand how the firm's results affect their pay or shares.

These are not soft measures. They are counts, and each can be checked against a record. Their virtue is that they measure the inputs the evidence says matter, rather than waiting for an output that may take years to appear.

Layer two: attention

The second layer asks the question Chapter 4's reading raises: is attention turning from defence toward care? It uses the Two Directions Audit, run at the start and a year on, and three operational measures that tend to move when attention moves.

- The audit's two scales: the average of the outward-facing items (documenting to protect oneself; fear of the firm being sold in harmful ways) and the inward-facing items (fixing or reporting problems outside one's own job; dealing fairly with a colleague who is not pulling their weight), by team.

- Time to bad news: how many days, on average, it takes for a problem seen on the floor to reach someone who can act on it. The steward collects examples through the year.
- Near misses and small fixes: reported near misses, suggestions made and suggestions adopted. A rise in reported near misses is often good news; it means people have stopped hiding them.
- Voluntary departures: the share of people who leave by choice. Hirschman's argument, which Chapter 12 takes up, suggests that when voice works, exit falls.

The finer point about this layer is that the early signs can appear before any financial result moves. Chapter 4 put it this way: a plan can succeed, on the living-systems reading, "when the time bad news takes to travel shortens, when fewer hours go to self-protective paperwork, when people outside the leadership team begin to ask sharper questions about the numbers." Those are measurable, and they are worth measuring for their own sake.

Layer three: the firm's results

The third layer is the one boards ask about first: productivity, profit, quality and stability. It should be measured, and it should be read with every caution above.

- Productivity: output or value added per hour worked, by unit.
- Quality and waste: the measures the firm already keeps, such as returns, rework or waste as a share of inputs.
- Profit: pre-tax profit and the share pool it produced.
- Employment in a downturn: if a bad year arrives, the change in hours and headcount compared with the change in sales. Kruse's 1991 study found that manufacturing firms with all employees in profit-sharing pension plans cut employment less in downturns than firms without, and found no significant difference outside manufacturing; a firm that sees the same pattern in its own bad year has seen the mechanism at work.

Layer four: the household

The fourth layer is the one almost no firm measures, and it is the one Chapter 3's first objection made central: what the plan does to the people who receive it.

- The share as a fraction of pay, for the lowest-paid and highest-paid full-time roles, in a normal year and in the worst year.
- Concentration: for plans that pay in shares, the median share of participants' plan balances held in the employer's stock, and whether any participant is required to hold more than they would choose.
- Wage substitution: a yes or no, checked each year, to the question of whether any share was paid in place of a market wage.

How to compare without fooling oneself

A firm cannot run an experiment on itself. It can borrow three habits from the research that make its comparisons more honest.

Compare units, not only years. If the plan is introduced in one unit before another, or if some units have stronger information and voice than others, the difference between units is more informative than the difference between years. Chapter 4's audit is reported by team for exactly this reason. Pendleton and Robinson's British study looked at the interaction between ownership and involvement; a firm can look at the same interaction across its own teams, on a much smaller scale.

Write down the prediction first. Before the year begins, the working group writes down what it expects each measure to do and why. At the end of the year the record shows which predictions held. A measure that moved in the predicted direction for the predicted reason is better evidence than one that moved after the fact and was explained afterwards.

Keep the failures in the record. Every measure is reported, including those that went the wrong way. Santa Anna's book sets the standard: "Honesty requires acknowledging that vitality-centered economic experiments fail — sometimes spectacularly." A firm that reports only the good figures will be believed by nobody, least of all its own people.

The household's own measure

Santa Anna's book offers a practice for the individual that sits alongside the firm's figures and measures something they cannot. He calls it the Vitality Inventory, a weekly review of one's economic activities that asks, for each, what one's state was during it and whether it left one more alive or less. Of the map it builds over months, he writes: "This map is more reliable than any financial spreadsheet, because it measures the variable that matters most."

A firm cannot and should not collect such a thing; it belongs to the person who keeps it. But a firm can invite it, and the invitation is itself a measure of seriousness. A plan that asks only whether productivity rose has told its people what it values. A plan that also asks whether working there feels different, and accepts that the answer is theirs, has told them something else.

Chapter 11 sets out a version of the inventory for one person and their household.

Reading the result: four patterns

When the year's measures are gathered, they tend to fall into one of four patterns, and each points to a different next step.

The stitch held and attention turned. Coverage was broad, the numbers were posted on time, questions were answered, the audit's inward scale rose and its outward scale fell. Financial results may or may not have moved. This is the pattern the evidence says precedes results, and the next step is to continue, extend and, if the owner intends it, to begin the conversation about permanence.

The stitch held and attention did not turn. The conditions were met, but the audit shows people still facing outward. The usual cause is history: a workforce that has been let down before will need more than a year of kept promises. The next step is to keep going, and to ask the council what would be convincing.

The stitch did not hold. Numbers went missing from the wall, questions went unanswered, the council stopped meeting. Whatever the financial results, the plan is ownership without voice, and Chapter 2's evidence says it will do much less than it could. The next step is to repair the stitch before anything else.

The results moved and nothing else did. Productivity rose, but coverage was narrow and the audit unchanged. This is the most tempting pattern to celebrate and the least informative. Something improved, but the evidence does not suggest the plan was the cause, and the year may have been a good year. The next step is to treat the gain with gratitude and caution, and to build the stitch.

What to report, and to whom

The year's measures go to three audiences, in three forms.

To everyone, in a one-page note: coverage, the number of times the numbers went up on time, the questions answered, the decisions that changed, the share paid, and the audit's two scales by team. In plain words, including what went wrong.

To the council and the board, in a fuller report: all four layers, the predictions made at the start, which held and which did not, and the comparison between units.

To each person, in a statement: what their share was, how it was calculated, what it would have been in the worst year, and what they hold, if anything, in shares.

The Luminous 100's reading of the balanced scorecard recasts each perspective as a question, and its first is the one this chapter has tried to answer for one kind of plan: "What financial patterns reveal our deepest generativity?" A firm that can answer it with a page of counts, a record of predictions and a candid account of what it does not know has measured its plan as a living arrangement rather than a line on a pension statement.

The Alpha Papers' reading of the value chain is a natural companion for a board that wants to see where in the firm the measured value is made.

The Tool: The Measurement Sheet

Complete at the start of the year (predictions) and at the end (results). Report every line, including those that went the wrong way.

Layer 1 · The stitch

MEASURE	PREDICTION	RESULT
Coverage (% of all people inside the plan)		
Numbers posted on time (n of n promised)		
Questions raised · answered in writing on time		
Decisions changed by employee input (name each)		
% who understand how results affect their pay (audit item 3)		

Layer 2 · Attention

MEASURE	BASELINE	YEAR ON
Audit outward scale (items 1, 7), by team		
Audit inward scale (items 2, 8), by team		
Days for bad news to reach someone who can act		
Near misses reported · suggestions adopted		
Voluntary departures (%)		

Layer 3 · The firm

MEASURE	YEAR BEFORE	YEAR OF PLAN	NOTE WHAT ELSE CHANGED
Value added per hour worked			
Waste or rework (%)			
Pre-tax profit · share pool			
In a bad year: change in hours vs change in sales			

Layer 4 · The household

- Share as % of pay, lowest-paid full-time role: normal year __ · worst year ____
- Share as % of pay, highest-paid role: normal year __ · worst year ____
- Any share paid in place of a market wage? yes · no

- Median % of participants' plan balances in employer stock (if shares): _____

The reading

- Which of the four patterns fits this year (stitch held and attention turned · stitch held, attention did not turn · stitch did not hold · results moved, nothing else did): _____
- The prediction that failed, and what we learned: _____
- The one change for next year: _____

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