

# A STAKE IN THE OUTCOME

Building a Culture of Ownership for  
the Long-Term Success of Your Business

JACK STACK and BO BURLINGHAM

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**MAIN IDEA**

Can an employee-owned company function as effectively as a company run by professional managers for its owners?

Conventional wisdom says “no”, but a growing number of companies would say “yes”. The key, however, is not simply to pay performance bonuses, hand out stock options or even just to set up an employee stock ownership plan. To succeed in creating an employee-owned and operated company, employees have to be taught how to think and act like owners. In short, an ownership culture needs to be fostered within the business organization. Achieve that and your company can and will consistently outperform the market.

To build a sustainable ownership culture, employees need to be provided with two things:

1. The right tools for the job – which will mean training in how to read and understand the financials of the business.
2. The right attitudes for the job – consisting of a willingness to innovate and optimize continually.

Many people confuse “open book management” with building an ownership culture. They assume that if a company discloses all the critical financial information to its employees, they will automatically act in the best interests of the company. The only problem with that idea is that most employees have a fairly basic grasp of financial reporting. Consequently, even if they have access to more complete financial information, they have no experience in interpreting that information in meaningful ways. In addition, most employees tend to be process focused – they look at their operational part of the business and understand what’s required there but are unable to relate those operational issues to the broader operation of the company as a whole.

To illustrate how well an employee-owned company can perform, consider the example of Springfield ReManufacturing Corporation (SRC) based in southwestern Missouri. In 1983, 13 employees led by CEO Jack Stack invested \$100,000 to buy the factory where they worked. At that time, the company had sales of \$16 million, 119 employees and each share of SRC stock was valued at 10-cents each. By teaching employees how to think and act like business owners, SRC built a strong ownership culture. By January 31, 2001, the company had grown to \$160 million in sales, more than 900 employees and seventeen years of unbroken profits. Each SRC share in 2001 has an appraised value of \$81.60 — an increase of 816,000 percent in 18 years. Today, SRC is valued at \$23 million and it is owned totally by its shareholder employees.

*“A combination of trust and business intelligence is the hallmark of an ownership culture as well as an extraordinarily powerful competitive advantage. Over the past ten years, I’ve personally seen hundreds of companies use open-book management to build trust and spread business knowledge throughout their workforce, thereby developing the kind of culture that has allowed them not only to prosper in good times, but to respond quickly to adversity and take advantage of the opportunities that are available only when times are tough. In the process, those companies are helping to define the new management paradigm that will become the standard against which all others are measured in the twenty-first century. That said, I have to add this journey is not for the fainthearted. Ownership is a long, hard, lonely road. There is nothing more powerful in business than a culture that people are willing to fight for, but it takes years to build one and there are no shortcuts. Every company with an ownership culture has out in its time and paid its dues. People have done the education, ste up the systems, developed the disciplines, made the mistakes, worked through the problems, dealt with the doubters, overcome the obstacles, and kept on going – even when it seemed as though there had to be an easier way. Why? Because it was the right thing to do. Because it made sense. Because it was what they believed in.”*

– Jack Stack, CEO, Springfield ReManufacturing Corporation

**The 14 Rules of Employee Ownership**

Rule #1 – The company is what you need to focus on building, not simply its products or services. . . . . Page 2

Rule #2 – Remember, your company will only be worth whatever someone else is willing to pay for it. . . . . Page 2

Rule #3 – Concentrate more on making the pie bigger than worrying about who gets which slices of the pie. . . . . Page 3

Rule #4 – Always remember stock ownership is not the panacea for every problem – old habits will still die hard. . . . . Page 3

Rule #5 – Achieving increases in the value of your company will always require a team approach. . . . . Page 4

Rule #6 – Failures are OK – as long as they strengthen the company by teaching important lessons. . . . . Page 4

Rule #7 – Business design doesn’t lead to a culture of ownership – employees need to be taught to think like owners. . . . . Page 5

Rule #8 – Show people ownership means an opportunity to go as far as their energy and imagination can take them. . . . . Page 5

Rule #9 – Getting out of stock ownership is always much harder than getting into it in the first place. . . . . Page 6

Rule #10 – To maximize the creation of new equity value, everyone needs to learn how to think strategically. . . . . Page 6

Rule #11 – The best way to create long-term wealth is not simply to sell more but to build the company. . . . . Page 7

Rule #12 – Every company is only as good as its people – therefore, to prosper, build leaders at every level . . . . . Page 7

Rule #13 – Ownership is all about the future – today’s value depends not on what you make now but in the future . . . . . Page 8

Rule #14 – Acting like an owner means being prepared to create your own destiny and determine your own outcome. . . . . Page 8

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