

KKR

Insights

Creating  
an Ownership  
Culture





# Engaging Employees with a Culture of Ownership

Companies face unprecedented challenges around employee disengagement but also clear opportunities to improve it. Global labor force participation rates are near 30+ year lows,<sup>1</sup> 51% of workers are actively seeking a new job, and only 23% of global workers are actively engaged.<sup>2</sup> Companies now face persistent challenges around adequate staffing and worker motivation, problems compounded by stubbornly high inflation rates.

How can companies respond? Our experience from working with our portfolio companies — initially in the U.S. but quickly expanding to other regions<sup>3</sup> — has revealed a powerful instrument for attracting and retaining employees at all levels of the company: investing in employee engagement and ownership culture. This approach can transform both the employee experience and turn ordinary investment outcomes into extraordinary ones.

We adopted this approach almost 14 years ago after observing the same issues in our industrials portfolio companies: low engagement, high turnover, and consequently, negative effects on corporate performance. Our analysis revealed misaligned incentives between management and hourly workers as their root cause, so we turned our focus to helping companies provide every employee a stake in our companies' success. To start, we began working with our companies on allocating a portion of the equity value created in these deals to the entire workforce.

Over time, we learned that broad-based ownership plans are only the first step to creating great places to work and great companies. We now complement our plans with management initiatives around employee engagement, workforce training, and financial literacy among other activities to build ownership culture. Since we began, we have seen clear evidence that this holistic approach to shared ownership both improves company performance and generates meaningful wealth for workers. To date, we have helped our companies award billions of dollars of equity to non-

executive employees across more than 40 companies, with the potential to create real wealth for over 100,000 working families.

We are confident that many more companies can create their own success stories with this approach. For that reason, we have supported the founding of Ownership Works, a nonprofit partnering with companies and investors to scale the adoption of broad-based employee ownership across the economy. Ownership Works' mission is to create \$20 billion in worker wealth by 2030 and is achieving it through partnerships with more than 75 organizations, including foundations, corporations, labor advocates, investors, and pension fund leaders. In addition to providing hands-on practical resources for investors and companies, Ownership Works organizes convenings of leaders engaged in shared ownership. Across two convenings in 2023 OW gathered more than 50 chief executives and more than 80 other executives in finance, HR, and operations to discuss their efforts, challenges, and successes in their journey to improve employee engagement. Through engagements like these, we and Ownership Works are continually learning from our experiences and contributing those learnings back to the broader ecosystem.

<sup>1</sup> International Labour Organization. "ILO Modelled Estimates and Projections database (ILOEST)" ILOSTAT. Accessed February 06, 2024. [ilostat.ilo.org/data](https://ilostat.ilo.org/data).

<sup>2</sup> Gallup State of the Workforce 2023

<sup>3</sup> On April 25, 2022, KKR said it was supporting all companies in its new \$19 Billion North America Private Equity Fund with employee ownership programs

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# The Evidence on Engagement and Ownership

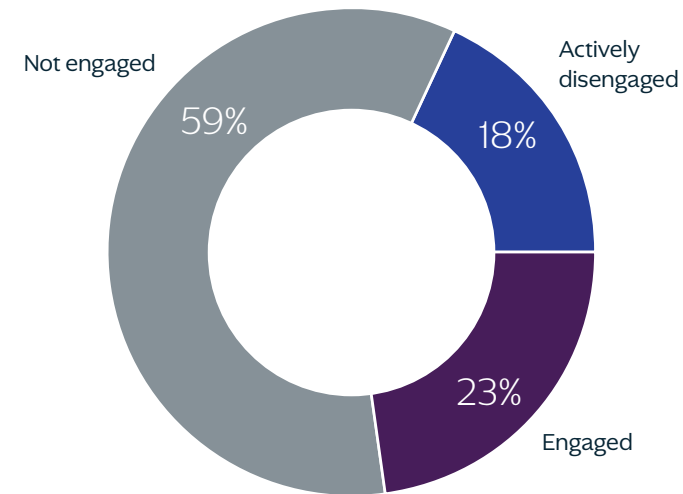
KKR's experience tracks closely with findings from the consulting and analytics firm Gallup, which keeps a pulse on employee engagement and trends. In a 2023 State of the Global Workforce survey, Gallup noted that most companies tend to have low workforce engagement and that higher employee engagement scores correlate directly with performance at both the team and individual levels across a variety of measures. This overall relationship holds true across geographies, industries, and company sizes.

In our own work, we have also seen evidence that developing an ownership culture creates incremental impact even with an engaged employee base. Early research on broad-based ownership programs at KKR portfolio companies shows that 97% of employees who say they are highly engaged and feel like an owner strongly agree that they will still be with their company in a year. In contrast, only 47% of those who score high in engagement but low in ownership strongly agree with this statement.<sup>4</sup>

We have also seen the impact of broad-based ownership plans and ownership cultures in both sourcing acquisitions and integrating the cultures of companies built through M&A. Flow Control Group (FCG), a leading provider of high value flow control solutions, has completed over 50 M&A transactions during our hold period. FCG CEO David Patterson noted that, "One of the unexpected benefits of employee ownership is how it has helped further differentiate FCG in a competitive M&A environment... adding a powerful quiver to our pitch with sellers and helping align us as partners post-acquisition." Similarly, at PlayOn! Sports, a leading high school sports media and technology company, granting equity ownership to all employees soon after merging with digital ticketing company GoFan created a foundation for a common culture and mission. PlayOn CEO David Rudolph shared, "Having a single uniting goal where everyone shares in the upside has been a critical tool to break out of silos and start working together as an integrated company."

While there is no rigid rulebook for creating an ownership culture, we have seen great outcomes follow from eight key practices.

<sup>4</sup> 2022 Gallup Analysis on OW6 culture index and Gallup Q12 engagement index across 8 KKR portfolio companies



Low employee engagement is the norm:

**At the average company, only 23% of employees are engaged<sup>1</sup>**

...but a more engaged workforce has demonstrable benefits

### On an individual level, engaged employees are<sup>2</sup>

56%

less likely to be actively looking or watching for a job

4x

more likely to recommend their organization as a great place to work

45%

more likely to be thriving in their life

66%

less likely to experience burnout at work

### ...and engaged teams drive:<sup>3</sup>

14%

higher productivity

18%

higher sales

23%

higher profitability

18-23%

lower turnover<sup>4</sup>

<sup>1</sup> Gallup 2023 "State of the Global Workforce" study

<sup>2</sup> *The Relationship Between Engagement at Work and Organizational Outcomes: 2020 Q12\* Meta-Analysis: 10th Edition.*

<sup>3</sup> When comparing BUs in top quartile of engagement with those in the bottom quartile; Source: Harter, Schmidt, Agrawal, Plowman, & Blue (2020)

<sup>4</sup> For high vs low turnover organizations: High-turnover organizations are defined as those with more than 40% annualized turnover. Low-turnover organizations are those with 40% or lower annualized turnover.



While there is no rigid rulebook for creating an ownership culture, we have seen great outcomes follow from eight key practices.

## KEY PRACTICE

## 1

## It Starts with the Foundation of Economic Ownership

The first step to build a culture of ownership is to grant ownership to all employees. Over the years, KKR has supported our companies with broad-based ownership programs using various financial instruments. We have found that the exact structure of the awards matters less than ongoing communication and engagement efforts, but we adhere to a few key tenets when designing programs:

- Ownership should be universal<sup>5</sup>
- The potential payout should be meaningful<sup>6</sup>
- There must be no potential downside or wage/benefit trade-offs to participation for non-executive employees<sup>7</sup>

Creating a broad-based ownership plan, however, is only the start of the journey to building a truly engaged and ownership-minded workforce.

<sup>5</sup> Programs include 100% of the FTE workforce that is not already covered by a Management Equity Program or existing equity share plan subject sometimes to minimum tenure requirements

<sup>6</sup> Plans should seek to provide the opportunity for the average non-senior-executive employee to earn 6-12+ months of salary if company goals are reached

<sup>7</sup> Plans have no impact on existing wages or benefits and non-senior executive employees do not put any of their own money at risk in the deal

## KEY PRACTICE

## 2

## Culture Thrives and Dies With Senior Leadership

Driving culture change is a challenging process that requires perseverance, focus, and humility. The key ingredient to it is leadership whose attitudes and behaviors serve as a model to the rest of the organization. We are working on how to identify successful leaders for this model and how to support leaders on this journey. Our experience suggests there are three common traits to successful CEOs who build strong cultures of engagement and ownership:

1. They care deeply about their people and the challenges they face;
2. They understand it is their responsibility to lift up the employees and organization; and
3. They commit to the journey and are willing to pour their heart and soul into seeing it through.

We have seen that “people-first” CEOs are uniquely successful in building engaged, loyal, and productive workforces, which strongly correlates to outsized business returns in the long-term.



KEY PRACTICE **3**

## Make Culture & Engagement a Strategy

Companies must treat management initiatives that build culture and engagement as meaningful levers in their value creation plans. While the Human Resources team can facilitate these initiatives, the CEO must prioritize setting their goals, driving their launch, and holding the organization accountable to success indicators, which should include people metrics. Importantly, the CEO should ensure these goals and success indicators flow from the company's values, rather than from financial targets alone.

There is no precise formula for building a culture of ownership and engagement. The most successful examples we have seen, however, do reveal a successful order of operations, namely:

- Incorporate ownership into the company's purpose and values;
- Collect employee survey data and identify areas for improvements using root cause analysis;
- Define activities that can drive improvement as well as goals and KPIs to measure progress;
- Create an action plan to launch, monitor, and evolve activities based on continuous data collection; and
- Cascade responsibilities for the plan's success, starting with senior leadership and flowing to frontline managers and employees.



KEY PRACTICE **4**

## Put Communication and Ownership Into Practice

In order to think and act like owners, employees need to believe they are owners. Establishing that belief begins with helping employees understand how the company creates value and how their day-to-day task contributes to that value. To achieve this, many of our portfolio companies host quarterly "owners' meetings" to share business priorities, current and projected performance, and recognition for employees who are living company values and acting like owners. Managers are further encouraged to make this information accessible to employees and incorporate it into their daily management practices. Finally, companies educate new employees through "ownership trainings" to understand, respond to, and act on business data. At Neighborly, the world's largest home services franchisor, the company produced a short video for every new employee that provides an overview of Neighborly's overall business, their company values, the primary value creation priorities, and how each employee shares in any value that's created through the ownership program.

Importantly, these ownership communications must be easy-to-understand, relevant, and meaningful to employees. When employees understand the connections between the success of their work, their team, and the company, they can begin to think and act like owners.

### EXAMPLE COMMUNICATION AND IMPACT

 <p><b>Healthcare Receptionist</b></p>	<p><b>Example Messaging</b></p> <ul style="list-style-type: none"> <li>– “As of today you are an owner in our company”</li> <li>– “Improving patient retention is critical to growing our value”</li> <li>– “You are the first and last person to interact with each patient giving you a pivotal role in improving retention”</li> </ul>	<p><b>Ownership Program Impact</b></p> <ul style="list-style-type: none"> <li>– Value of the business personally relevant to receptionist</li> <li>– New ideas to improve patient experience are surfaced by the people most likely to hear unfiltered feedback in the waiting area</li> </ul>
 <p><b>Finance Collections Team</b></p>	<p><b>Example Messaging</b></p> <ul style="list-style-type: none"> <li>– “Reducing net working capital frees up money to re-invest in our business or return to the owners (which includes you!)”</li> <li>– Team is educated about net working capital using analogies to household budgeting and makes progress</li> <li>– “Due to the progress we’ve made we are issuing a dividend - you’ll see money in your account next week!”</li> </ul>	<p><b>Ownership Program Impact</b></p> <ul style="list-style-type: none"> <li>– Education on NWC is absorbed because it’s personally relevant</li> <li>– Dividend participation makes progress tangible, re-enforces impact of work</li> <li>– Team motivated to further reduce NWC in virtuous feedback loop</li> </ul>
 <p><b>Machine Operator</b></p>	<p><b>Example Messaging</b></p> <ul style="list-style-type: none"> <li>– “We discard \$25M in scrap every year, which comes directly out of our profits”</li> <li>– “Our company is valued as a multiple of profits so \$25M in scrap reduces the equity value we share in by \$250M!”</li> <li>– “Every \$1 of scrap you save gets us back \$10 in equity value which we will all share in as owners”</li> </ul>	<p><b>Ownership Program Impact</b></p> <ul style="list-style-type: none"> <li>– Incentives aligned to maximize efficiency</li> <li>– Financial education helps workers understand the outsize impact small daily improvements have on value</li> </ul>

# KEY PRACTICE 5

## Give Employees Greater Voice

Another critical component of an ownership culture is giving employees greater voice in the organization. Employee engagement surveys are a helpful first step since they show how employees feel, think, and act today. They should also trigger follow-up conversations about the root causes of identified issues and action plans to address them. A best practice is to conduct these conversations live at multiple levels, namely among leaders, managers, and employees. For example, Dave Bangert, the CEO of C.H.I. Overhead Doors, a manufacturer of high-quality residential and commercial garage doors, invited a group of frontline employees each week to a “Donuts with Dave” session to share ideas on company improvements and investments. A standard process at many sites across Kito Crosby, a global manufacturer for the lifting and securement industries, is a “10 count program” where site managers, supervisors and cross-functional leaders make it a daily goal to engage with ten individuals, asking, “How could we enhance the safety or productivity of your daily tasks?” By doing this, employees get the opportunity to discuss improvements, are being listened to, and thereby feel involved in taking responsibility for improving their work place. Involvement creates engagement and a feeling of being a part of the company. The company ensures accountability for both gathering and implementing feedback by systematically tracking the suggestions and the follow-up communications.

Companies with ownership cultures also push decision-making deeper into the organization. Several of our current and former industrials companies have dedicated a portion of their annual budget for employees to vote on initiatives aimed at improving the workplace and their wellbeing. For example, frontline employees have voted for better breakrooms, healthier cafeteria options, air-conditioning in the plant, and on-site health clinics—initiatives that company management implemented. While these investments did not have a profit expectation, we have found time and again that they pay for themselves. For example, when CHI implemented air conditioning in its primary manufacturing plant, an uncommon practice in the manufacturing world, quality improvements followed during the company’s busy summer months. Happier employees translated into happier customers, enabling CHI to gain market share.

Other companies have involved employees in decision-making on community or non-profit partnerships and provided them opportunities to directly invest their time. For example, Integrated Specialty Coverages (ISC), a leading multi-line insurance distributor, created the ISC Giving Program. The program enables any employee personally supporting a non-profit or charitable foundation to submit a request for additional support from the “Giving Committee,” a group of cross-organization employees who volunteer to review proposals. Employees also help organize regional volunteer days with select charities where co-workers donate their time together during a paid workday. Programs like these build camaraderie and morale as employees learn more about each other’s passions, commitments, and life stories outside work.

### SELECT EMPLOYEE-DRIVEN CAPEX INITIATIVES AT C.H.I. OVERHEAD DOORS







## KEY PRACTICE 6

### Provide Training and Upskilling

The most successful companies also invest heavily in their frontline managers and employees. For example, Ingersoll Rand, a multi-national company that provides flow creation and industrial products, created the “Ingersoll Rand Execution Excellence” program, which dramatically expanded training capabilities for mid-level and frontline managers. Through initiatives like these, Ingersoll Rand saw their engagement scores increase from the 20th to the 90th percentile over our 8-year hold period. Charter Next Generation (CNG), a leading producer of high-performance specialty films used in specialty packaging, provides training to frontline managers on how to facilitate important conversations with their teams. They have also trained engagement champions across multiple levels of the organization. CNG has seen the number of teams scoring in the top quartile for engagement triple in their first year under the program.

Groundworks, a fast-growing residential foundation repair and water management services platform with over 4,000 employees, starts training from the moment a prospective employee signs his or her offer letter. The company pairs new employees with onboarding champions whose job is to welcome new team members to the “tribe” and be a guide from the moment of offer through their first several months on the job. For the new employee’s first few weeks, the company rotates them through various roles to ensure they understand every aspect of the business. For example, a new sales manager spends time in the field with production crews, engaging in manual labor alongside them to understand where achieving customer satisfaction starts and how hard the work is. Every role has clearly articulated career paths with defined compensation trajectories, and all positions are referred to as “careers” rather than “jobs.”

Rigorous online, in-person, and experiential training programs and certifications support these career trajectories. Unsurprisingly, 90% of Groundworks’ managers come from internal promotions rather than lateral hires.

## KEY PRACTICE 7

### Invest in Financial Literacy

Another key element of our approach is to invest in financial literacy and resilience resources for employees. According to a FINRA study, two thirds of adults in the United States are financially illiterate when asked about fundamental concepts such as mortgages, interest rates, inflation and risk.<sup>8</sup> In addition, companies lose an estimated \$250 billion in productivity each year due to financial stress amongst employees, and 73% of employees report they would be more attracted to a company that offers financial health benefits.<sup>9</sup> Thus, teaching personal and basic corporate finance is valuable to employees and companies. It drives employee engagement and productivity by decreasing financial stress and distraction for financial issues. Financial literacy also helps workers value their ownership stake, with a better understanding of the company’s financial reports, performance metrics, and financial decisions.

Financial literacy becomes especially important when there are payouts to the workforce through liquidity events like dividends, an exit, or a sale. Many of our portfolio companies provide free tax support and financial coaching at the time of the payouts. RBmedia, an audiobooks publisher, recently provided these services upon KKR’s exit. Several of our companies have successfully launched emergency relief funds that provide critical assistance to employees when they have unforeseen life events. This assistance reflects a culture of care and is an important tool to ensure that employees can manage near-term financial stresses. That said, we are continuing to learn more about the opportunities to improve these programs. For example, we are experimenting with new approaches to help companies that have struggled with low adoption rates of services like coaching. We are also exploring solutions to help our portfolio companies better measure and amplify the workforce impact of these services.

<sup>8</sup> Lin, Judy T, Christopher Bumcrot, Tippy Ulicny, et al., The State of U.S. Financial Capability: The 2018 National Financial Capability Study, FINRA Investor Education Foundation, June 2019, available at: [https://www.usfinancialcapability.org/downloads/NFCS\\_2018\\_Report\\_Natl\\_Findings.pdf](https://www.usfinancialcapability.org/downloads/NFCS_2018_Report_Natl_Findings.pdf)

<sup>9</sup> Canary company research, 2023.

KEY PRACTICE

8

## Reward and Recognize

Employee recognition has been shown to significantly impact retention. According to Gallup, employees who feel adequately recognized are half as likely to consider leaving within the next year compared to those who do not.<sup>10</sup> Recognition can and should happen at multiple levels of the organization, not only from direct managers but also from senior leadership and between peers. Recognition is also an effective way to reinforce ownership behavior and encourage it to spread across an organization.

Leaders across our companies recognize employees in various ways. Dave Bangert created a spot award program at C.H.I where employees could recognize their peers. He added to these awards a personal letter,

addressed to the employee and their family so they could celebrate again at home. Charter Next Generation leverages technology to spotlight an employee of the month. They post QR codes in every site's break rooms where employees can access short videos highlighting co-workers who embody the company values and an ownership mindset. Additionally, many executive teams share instances of employees demonstrating an ownership mindset during quarterly company-wide "owners' meetings."

<sup>10</sup> Clifton, J., & Harter, J. K. (2020). *It's the Manager: Moving from Boss to Coach*. Gallup Press.

EXAMPLE EMPLOYEE SPOTLIGHT FROM CNG

**EMPLOYEE SPOTLIGHT**

**CNG**  
CHARTER  
NEXT GENERATION

EMPLOYEE SPOTLIGHT  
**JANE SMITH**  
Slitter 3

Scan this QR code to learn about **Jane** and her dedication to **growing and supporting** Charter Next Generation as an **Employee Owner!**

BLOOMER, WI

## When It Works

We have deep conviction that employees who think and act owners provide companies a major competitive advantage, enabling them to outperform their peers. In today's challenging labor market, this opportunity has only grown as the costs of attracting and retaining talent have increased. Our experience has shown that investing in employee engagement, ownership culture, and related programs directly address these challenges. At Ingersoll Rand, for example, voluntary turnover dropped from over 20% to less than 3% between 2013 and 2021.<sup>11</sup> By the same token, many of our companies with strong engagement and ownership programs have also seen an influx of applicants who specifically reference the company's differentiated culture as a primary reason for applying and wanting to join the enterprise.

Beyond these benefits, these programs drive differentiated outcomes for company performance. We have numerous examples of employees voicing new ideas, going the extra mile, and making material improvements in their companies because they are thinking like owners. The early financial results are encouraging: across the nine exits where broad-based ownership was established, we've seen a return on invested capital of more than four times on average. For employees, we have countless stories of how these programs and financial rewards have been life-changing for them and their families.

Our partners at Ownership Works are finding similar success with investors and companies outside KKR. To date, they have helped create significant wealth for employees and have collected many success stories and case studies to build the shared ownership movement. The reason so many partners are investing in this work was neatly summed up by Dave Bangert, CEO of C.H.I. Overhead Doors: "Working together to create an amazing outcome and sharing the rewards as a team and with our families was one of the most rewarding moments of my career."

<sup>11</sup> KKR fully exited Ingersoll Rand in 2021

"Working together to create an amazing outcome and sharing the rewards as a team and with our families was one of the most rewarding moments of my career."

— Dave Bangert, CEO of C.H.I. Overhead Doors





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