Author: **Scheidt, Marc E.**

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STUDENT: **Marc Scheidt**

NAME: [redacted] **DATE: 11/21/2017**

ADVISOR:: **Dr. Jeanette Black**

NAME: [redacted] **DATE: 11/21/17**

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Scheidt, Marc E. ***Western Comfort ESOP Transitional Readiness***

Abstract

The founder of Western Comfort wishes to retire within the next three to five fiscal years and needs to evaluate if a transition in the organizational model from an S-corporation with a single stock owner to an S-corporation with an ESOP is the best direction for the organization to pursue. The purpose of this study is to research, evaluate and make recommendations of operational readiness for implementing change for Western Comfort from an S-corporation with a single stock owner to an S-corporation with an ESOP. Research results of this study will establish a current state, and define a road map to ensure the organizational outlook remains both financially viable with a strong organizational culture in place prior to his retirement.

To evaluate transitional readiness for Western Comfort a two-phased approach will be utilized. A financial survey audit will be conducted for the fiscal years of 2012-2016 to ensure the organization is financially healthy to support the desired change. Secondly, a culture readiness survey will be administered to validate that the culture within the organization is ready to transition to an ESOP. For both, informed consent procedures will be used to ensure data is collected in accordance with IRB protocol.

Acknowledgments

Obtaining a Master's Degree, like any other goal in life is a journey. The journey begins with a plan, commitment, and support. Along this journey there are times of joy and times of sorrow. Without having a plan, commitment, and support, the journey will likely not reach the desired goal. It is because of this I would like to acknowledge the following:

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Chapter I: Introduction

Western Comfort Mechanical Contractors (hereafter referred to as Western Comfort) is a licensed mechanical contractor headquartered in California, providing sales, installation, service, and repairs for heating, air conditioning, and refrigeration systems for California commercial and residential customers. Western Comfort is structured under sub chapter "S" of Chapter 1 of the Internal Revenue Code hereafter referred to as an S-corporation with a single stock owner. Similar to other S-corporations with single stock ownership, the founder of Western Comfort has been evaluating succession plans for Western Comfort including a restructured business model, as the single stock owner and founder evaluates retirement. As such, an employee stock ownership plan (ESOP) may be a practical strategy and succession plan for Western Comfort to take into consideration.

Western Comfort, at the time of this study employs approximately 70 skilled tradesmen, project managers, estimators, and administrative business support personnel with annual sales revenue in excess of 15 million dollars annual, and is a strong company with a good reputation in the geographical area in which services are provided. The company founder and owner of Western Comfort has stated a need for organizational re-alignment and requested an evaluation of the feasibility of transition to an ESOP organizational structure the direction of for both financial and cultural alignment of the organization (M. Cauwels, personal communication, July 7, 2016).

Upon the completion of this study, an ESOP structure would be considered for implementation if it is found to be mutually beneficial for the founder's retirement plans, and the employees of Western Comfort both current and future. If Western Comfort is unable to identify that an ESOP is an appropriate for the future business model during this next fiscal year then

Western Comfort will continue to operate under the current model. This outcome could delay the founder's plans for retirement until a mutually beneficial new business solution can be investigated, validated, and implemented.

Statement of the Problem

The founder of Western Comfort wishes to retire within the next three to five fiscal years and needs to evaluate if a transition in the organizational model from an S-corporation with a single stock owner to an S-corporation with an ESOP is the best direction for the organization to pursue. Western Comfort's current organizational model would not allow the founder to retire without selling his financial interests of Western Comfort to a third party. This would not allow the founder to reward and retain loyal employees whom have aided in the success of the organization. The creation of an ESOP may allow a business owner to exit the business by transferring the business to the ESOP, either all at once or incrementally. This strategy also allows the owner to postpone capital gains recognition under Section 1042 of the Internal Revenue code (Burke, 2015, p. 66).

Purpose of the Study

The purpose of this study is to evaluate and make recommendations of operational readiness for implementing a business model change for Western Comfort from an S-corporation with a single stock owner to an S-corporation with an ESOP. This will allow the founder to retire while ensuring the organizational outlook remains financially viable with limited organizational disruption.

Ensuring financial stability and the organizational culture of Western Comfort remains or improves from current levels is one of the primary goals of this study. By evaluating both financial health and culture in parallel within the current business model, this study will be able

to identify organizational readiness and/or opportunities for improvement in the Western Comfort to support this organizational change. Project deliverables of the study include financial health assessment along with a survey of current culture at Western Comfort with a focus on organizational stability and future success.

Assumptions of the Study

To successfully perform a study on Western Comfort's organizational readiness to transition from an S-corporation with a single stock owner to an ESOP requires that some assumptions be made prior to launching the study.

1. Western Comfort will grant the researcher unrestricted access to the business and any records required, including financial.
2. An assessment of the present state of the organization as an S-corporation with single stock ownership will be established.
3. Western Comfort meets the minimum requirements to establish an ESOP.
4. The financial health of Western Comfort is such that it would be able to transition the business model without financially disrupting current business requirements.
5. The researcher will be granted access to collaborate with employees of Western Comfort, and that employees are willing to support the study by being transparent and honest when answering questions during the research process.
6. Employees most familiar with the current organizational structure are the best source of gathering accurate information.
7. The founder is truly planning to retire in the next three fiscal years, and that transitioning from an S-corporation with single stock ownership to an ESOP is what the founder and employees of Western Comfort desire.

Definition of Terms

Throughout the course of this study, terminology has been identified that was new or unclear to the researcher. For the purpose of clarification, a list of these terms along with their definitions has been provided in the proceeding section of this paper. With additional explanation of common terminology associated with topics researched during the course of this study, the researcher obtained a greater depth of understanding, and how it impacted the study on the ESOP transitional readiness at Western Comfort.

401 (k) plan. This is a qualified retirement plan that permits employees to elect to contribute (defer) some of his/her salary into the plan. Assets in the plan are invested (usually by the employee) and grow tax-free. A 401(k) plan can also allow for employer contributions in addition to employee deferrals (London, 2017).

409(p). This is a section of the code that is designed to ensure that s-corporation employee stock ownership plans (ESOPs) do not heavily benefit members of the same family or a small group of people. This section enacted when individuals began abusing the s-corporation employee stock ownership plan (ESOP) structure by making family-owned businesses an employee stock ownership plan (ESOP), but with only the family members participating (London, 2017).

Administrator. The person or entity that is responsible for the administration of the employee stock ownership plan (ESOP) according to the terms of the plan documents. The employer usually serves as the administrator, but often hires a third-party administrator to be responsible for the record keeping and other administrative functions for the employee stock ownership plan (ESOP). Some of the duties of the administrator also may be delegated to

committees established to help administrator the employee stock ownership plan (ESOP) effectively (London, 2017).

Artifacts. Visible organizational structures and processes (Schein, 1992).

C-corporation Employee Stock Ownership Plan (ESOP). A c-corporation's income is taxed at the corporate level. To the extent shareholders receive dividends from the c-corporation; they must pay income tax on such dividends at a special dividend rate (London, 2017).

Climate. A set of measurable properties of the work environment, based on the collective perceptions of the people who live and work there that influence their motivation and behavior" (Al-Shammari, 1992, p. 30)

Company stock. An employee stock ownership plan (ESOP) is legally required to invest "primarily" in the stock of the employer (or a related company). Thus, an employee stock ownership plan (ESOP) is a shareholder of the company since it owns some or all of the issued and outstanding shares of the company (London, 2017).

Contributions. The employee stock ownership plan (ESOP) acquires assets to be used to provide a retirement benefit to its participants by means of money or other property contributed by the company and by earnings from that property. The amount the company contributes to the employee stock ownership plan (ESOP) for a given year is discretionary with the company (London, 2017).

Cost of goods sold (COGS). Cost of goods sold (COGS) are the direct costs attributed to the production of the goods sold by the company. This amount includes the cost of materials used in creating the good along with the direct labor costs used to produce the good. It excludes indirect expenses such as distribution costs and sales force costs (Investopedia, 2017).

Debt. The amount of money borrowed by one party from another (Investopedia, 2017).

Distributions. When an employee stock ownership plan (ESOP) participant reaches normal retirement age, dies, or becomes disabled, the participant is entitled to receive a distribution of their employee stock ownership plan (ESOP) account usually during the plan year following the year in which such retirement; death or disability occurs (London, 2017).

Eligibility. These are the requirements before an employee can become a participant in a qualified retirement plan. In an employee stock ownership plan (ESOP), it is customary to require that an employee be at least 21 years old and have performed one year of service before they become a participant (London, 2017).

Employer. This is the corporation which creates and maintains the employee stock ownership plan (ESOP) to provide a retirement benefit to its employees who qualify to become participants in the employee stock ownership plan (ESOP). Other companies which are related to the employer also may choose or be required to adopt the employee stock ownership plan (ESOP) and have their employees who qualify become participants. The employer also is referred to as the company (London, 2017).

Employee Retirement Income Security Act (ERISA). Protects employees' retirement benefits and gives the Department of Labor and the Internal Revenue Service the power to oversee retirement plans adopted by employers for benefit of their employees (London, 2017).

Employee Stock Ownership Plan (ESOP). This is the acronym for. An employee stock ownership plan (ESOP) is a Qualified Retirement Plan that is designed to invest primarily in stock of the employer. An employee stock ownership plan (ESOP) is the only Qualified Retirement Plan that may borrow money (London, 2017).

Expense. Expense consists of economic costs a business incurs through its operations to earn revenue (Investopedia, 2017).

Fair market value. The price at which property would change hands between a willing buyer and willing seller, acting at arm's length, in an open market where neither is under a compulsion to buy or sell, and when both have reasonable knowledge of the relevant facts (London, 2017).

Leveraged ESOP. If an employee stock ownership plan (ESOP) has borrowed money as an exempt loan to buy company stock, it is referred to as a leveraged employee stock ownership plan (ESOP) (London, 2017).

National Center for Employee Ownership (NCEO). A self-sustaining nonprofit membership organization that provides practical resources and objective, reliable information on employee stock ownership plans (ESOPs), equity compensation plans and ownership culture (NCEO, 2016).

Organizational culture. Collective experience that emerges from the beliefs and social interactions of its members (Schneider, Brief, & Guzzo, 1996 as cited by Black and LaVenture, 2015, p. 2).

Organizational climate. A set of measurable properties of the work environment, perceived directly or indirectly by the people who live and work in this environment and assumed to influence their motivation and behavior (Litwin, 1968 as cited by Black & LaVenture 2015, p. 20).

Participant. Employees who meet certain requirements established in the employee stock ownership plan (ESOP) (the most common being the employee must be at least age 21 and have a Year of Service with the Employer) are eligible to become a participant in the employee stock ownership plan (ESOP) (London, 2017).

People-process culture. A People-process culture is an organization environment that creates a strong, positive belief in people and sustains a high level of performance and profit over an extended period of time (Black & LaVenure, 2015)

Pro-rata. Pro-rata is the term used to describe a proportionate allocation. It is the method of assigning an amount to a fraction according to its share of the whole (Investopedia, 2017).

Qualified retirement plan. Retirement plan that meets the requirements of section 401(a) and other provisions of the Internal Revenue Code. Qualified Retirement Plans provide special tax benefits to employers (London, 2017).

Revenue. Revenue is the amount of money the company actually receives during a specific period, including discounts and deductions for returned goods (Investopedia, 2017).

S-corporation Employee Stock Ownership Plan (ESOP). An ESOP sponsored by an s-corporation. Because s-corporations are pass-through entities for income tax purposes, individual shareholders are liable for the payment of income taxes on the company's profits (London, 2017).

Valuation. The process of determining how much an asset, company, or anything else is worth (Farlex Financial Dictionary, 2009).

Limitations of the Study

The following limitations for this study are identified as follows:

1. The time frame given to make the determinations that Western Comfort is ready to convert to an ESOP is limited to the next fiscal year.
2. This study is specific to Western Comfort and may not be generalized with other organizational systems.

3. The data obtained during the study comes from a wide variety of sources, and assumes that this information will fit the determined model of ESOP that will be the best fit for Western Comfort.
4. The physical location of the affected employees of Western Comfort is varied. Although the organizational leadership team is centrally located, the workforce with the largest benefit and associated change are dispersed across many active jobsites within a three-hour radius of the Western Comfort headquarters.
5. Conversion to an S-corporation ESOP is the only business model being considered at this time. Other business models are not considered within the scope of this project.

Methodology

This study requires evaluations of the current organizational structure of Western Comfort within an S-corporation with a single stock owner to understand the implications of transitioning the organization to an ESOP. Gathering data on Western Comforts current financial state and culture will provide a launching point for the study and requires allocating time with Western Comfort leadership, Board of Directors and employees. Financial data on organizational performance will be gathered through an assessment to validate the financial stability of the organization on a year over year comparison. Organization culture will be evaluated through a survey that will provide data on the current organizational culture and climate that resides within Western Comfort. The combination of the financial assessment and culture survey will aid in evaluating organizational readiness for a transition to an ESOP.

Summary

Chapter One introduces and discusses the current state of the Western Comfort business model. This includes the intent of the founder to evaluate for the purposes of developing a

succession strategy to transition from a single stock owner S-corporation to an ESOP. Chapter Two will discuss literature relevant to supporting or identifying barriers for transitioning to an ESOP through a review of scholarly literature. Chapter Three will discuss the methods that will be utilized for the evaluation of Western Comfort's operational readiness to undergo a strategic business model change to support the founders exit from active engagement of routine operations. Chapter Four will present the analysis performed in alignment with of the methods outlined within chapter three as it relates to this study. This will provide the required data to evaluate Western Comfort's operational readiness to transition to an ESOP organization. Chapter Five will discuss the results of the analysis and provide recommendations for Western Comfort on feasibility and readiness for implementation of an ESOP along with suggestions for future areas of research to support future restructuring within the organization to ensure ongoing success and growth.

Chapter II: Literature Review

The literature reviewed relevant to S-corporations, ESOP's, and organizational culture provided information to aid this students' research with Western Comfort in evaluating transitional readiness of the organization from an S-corporation with a single stock owner to an S-corporation with an ESOP structure. This literature review included research on S-corporations, and origins and history of ESOP's. In addition to review of ESOP's, literature on the effects of organizational culture, climate, productivity, and profitability. Information gathered during literature review not only assisted in evaluation of Western Comforts readiness to transition to an ESOP structure but also aided in enhancing their people focused culture.

People First Organizations

Historically, organizations built barriers between management and the workforce through bureaucracy which provided a platform for managers to control behaviors and outcomes that supported the goals of the organization (Weymes, 2005, p. 145). Weymes found that when behavior was controlled, personal freedom and innovation were stifled, yet innovation was the cornerstone to competitive advantage. Innovation flourished when individuals were provided with the opportunity to express their individual freedom and when employees feel their actions contribute to making a difference (Weymes, 2005, p. 152). People first organizations have been embedded in the belief that encouraged creating a sense of purpose, to eliminate reservations, tear down inter-organizational barriers, and educate with the intent of instilling trust throughout the organization (Black & La Venture, 2015).

Team building. The U.S. Office of Personnel Management (1997) released a study that team building activities contribute to the overall success of the company. Alignment of employees with the beliefs and objectives of the organization created a common purpose for all

employees. Team building aids the enhancement of company culture by uniting the workforce toward a common mission and objectives established by the organization. This was accomplished through communication, training and leadership. Team building promoted self-development, positive attitudes, leadership development, and the ability to work closely with others to solve problems (Hakanen, 2012, p. 40). These traits were found to build a foundation for a people focused culture (Black & LaVenure, 2015).

Organizational Culture

The definition and concept that has surrounded culture has been debated by scholars for decades. Although there have been different beliefs on the exact meaning, all agree that culture is instrumental to the success and over-all organizational performance. Schein (1992) defined organizational culture as "a pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration that has worked well enough to be considered valid, and therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems" (p. 12). Schein also stated that the assumptions "come to be taken for granted" because they solve the group's problems "repeatedly and reliably" (p. 6). Additionally, these assumptions operated subconsciously and instinctively, whereby culture was often a challenging concept for organizational members to not only understand but, measure and change (Kraut, 1996).

Analyzing culture. Organizational culture has been looked at through different lenses such as artifacts, espoused values and basic underlying assumptions. Artifacts are defined as visible organizational structures and processes (Schein, 1992, p. 17). Examples of artifacts included items such as banners, signs, newsletters or even dress code. The second level of culture discussed by Schein is espoused values. Espoused values can be heard or spoken. These may

include strategies and slogans, sayings, goals or philosophies. The third layer described by Schein is basic underlying assumptions. Basic underlying assumptions were subconscious, taken for granted beliefs, perceptions, thoughts, and feelings. This included assumptions that are not directly able to be seen and, consequently, hard to measure and change.

In comparison to Schein, Daniel Denison (1990) defined organizational culture as "underlying beliefs, values, and assumptions held by members of the organization, and the practices and behaviors that exemplify and reinforce them." During the 1990's and into the early 2000's Denison conducted several studies that explored impact on organizational culture on the overall performance of an organization, and has determined that involvement, consistency, adaptability and mission to be cultural traits that directly impact organizational performance (Denison, 1990). These four traits were utilized to develop the Denison Organizational Culture Survey by Daniel Denison and William S. Neal (2017). This culture survey separated the traits and provided a mechanism to measure and link organizational culture to bottom line organizational performance such as profitability, quality, market share, sales growth and employee satisfaction.

The authors demonstrated that organizational culture can direct the behavior of all individuals and groups that make up the organization. Organizational culture was integrated into all aspects of organizational life, including how decisions were made, who made decisions, how rewards were distributed, who was promoted, how employees were treated and how an organization responded to the environment. Culture was compared to an organization as one's personality to an individual. Organizational culture was found to be a distinctive collection of beliefs, values, work styles, and relationships that distinguish one organization from another (Harrison & Stokes, 1992, p. 1).

> Langdon (2017, p. 1) stated the following regarding cultural change and influences:
>
> An organization matures like a person. Moving from infancy to adolescence, to maturity and stability in middle age. And just like personality, culture matured too. With history and experiences, culture becomes firmly embedded and starts to migrate from the surface, getting layered and becoming harder to really define what is at the heart of why people do the thing that they do. To change the culture in an organization – you have to get at the root of why people do the things that they do. Observing at the surface gets you nowhere. The most basic assumptions need to be unearthed and the people need to be aware of what really drives the thinking, feeling, and behavior in the organization. The more you wear the company cloths the harder it is to know why you started to wear them in the first place – they become unchecked and routines that seem so normal. (Langdon, 2017, p. 1)

Climate versus culture. "Employee satisfaction surveys [climate surveys] measure how individuals feel about the company. Culture studies measure how those factors affect the organization and its capacity to achieve its objectives" (Palmer, 1999, p. 1). Embedded cultures established stability and predictability because of the direction for behavior, ideas and about how to respond or come to a decision during uncertain situations. How employees within an organization reacted to situations has been based on past experiences within the organization. However, the reason behind why individuals have specific feelings was determined to stem from the organizations culture. Culture was found to be affected by climate, as climate was a subset of organizational culture (Harrison & Stokes, 1992).

Organizational climate was considered a relative temporary state, subject to control, and largely limited to those aspects of the social environment between organizational members. Some researchers have explained climate as a lighter version of culture. An accepted definition

of climate is "A set of measurable properties of the work environment, based on the collective perceptions of the people who live and work there that influence their motivation and behavior" (Al-Shammari, 1992, p. 30).

Organizational culture assessment. Denison described several reasons and applications for performing culture assessments. Some of the reasons that Denison stated for assessment are general business, mergers and acquisitions, organizations that may be facing industry restructuring, change in organizational leadership, and new strategic initiatives (Denison, 2017). As such, Western Comfort felt a need to perform a culture assessment as the organization was directly faced with three of the five reasons that Denison stated as good reasons to perform a culture assessment.

1. Western Comfort was evaluating implementation of a change in business model from a sole proprietorship to and ESOP.
2. A new COO was hired to assist with the transition as the founder prepares to exit the company for retirement.
3. The founder wished to ensure the organization was left with incentive, stability, and a common vision for the future prior to departing the organization and loyal employees were rewarded for the success that assisted creating and growing over the last three decades.

Denison (2017) outlined some of these reasons for applications in detail as listed below.

1) General Business
    a) A baseline assessment of current cultural strengths and weaknesses
    b) Clear prioritization of short, mid, and long term change efforts – relative to the results sought for each of these time frames

c) Understanding of the organizations' areas of similarity and/or difference – for the purpose of planning and implementation of integration efforts. (p. 6)

2) A Merger/ Acquisition
   a) Identification of those cultural areas which, although supportive of success in a previous environment, will hinder success going forward.
   b) Targeting and prioritizing of culture change efforts to match desired results – at the organization, department and team levels. (p. 6)
3) A New CEO
   a) The new leaders rapid understanding and interpretation of the organization (as well as departmental/ divisional/ team) strengths and weaknesses, and prioritization of these areas for both leverage and development.
   b) A baseline against which the leader can later measure his/her success on moving the organization forward toward high performance. (p.8)
4) An Organization in Decline
   a) The interpretation of cultural factors and their possible links to the decline of the organization's performance.
      i) Is there a clear mission for the organization?
      ii) Is there enough adaptability/flexibility in the organization to respond to a changing environment?
      iii) Are the systems current and supportive of successful goal attainment?
      iv) Is the organization continuing to learn and develop the competencies of its personnel?

v) Is the organization listening to and responding to the concerns of its customers?

vi) Or is it "doing what has always worked" regardless of what the customer wants?

vii) The prioritization of efforts to reverse the decline relative to areas of specific cultural strengths and weaknesses and desired business results. (p. 8)

5) New Strategic Initiative

a) The understanding of whether or not the necessary cultural conditions exist to support the successful implementation of the initiative.

i) Is the mission clear?

ii) Is there high involvement and support for the initiative?

iii) Is there the required adaptability to support a new/different path?

iv) Are the systems and structures in place to ensure the initiative's quality implementation?

v) The prioritization of systemic-efforts (communication processes, systems, competency requirements, cross-team efforts, etc.) which must be implemented simultaneous to the new strategy to ensure success. (p. 9)

Changing organizational culture. The thought of making change has been viewed something that can induce fear throughout an organization, which often stimulates resistance. However, at the same time, change can be exciting and almost vital to keep organizations from being outdated. To create the desired change, one must first have created awareness to the need for change. Most people will not change their viewpoints, habits, or behaviors unless motivated to do so. As long as the reward of remaining consistent was greater than the reward to change,

individuals and organizations will likely stay the status quo. Some strategies to develop awareness noted by Hathaway (2000) were:

1. Develop a proactive organizational newsletter that discusses issues relevant to its future.
2. Initiate management dialogue sessions with other managers, supervisors, and employees.
3. Conduct training that deal with the need for change.
4. Use case studies that demonstrate what happens when organizations don't respond to changes in their industry or environment.
5. Ask people "What would happen if we didn't change?"
6. Bring examples of competitor's products and discuss implications.
7. Put up a master bulletin in a central area and invite employees to post articles on the industry, competitors, challenges, and so forth.
8. Encourage senior managers to "wander" frequently throughout the organization asking appropriate questions regarding the need to change.
9. Change reward systems to align with those behaviors the organization wants to expand.

   Once a change plan has been established and communicated, the leaders within the organization are charged to implement the decisions. If not managed properly, results could translate into poor employee satisfaction, loss of profits, poor performance and poor levels of customer service (p. 4).

Organizational Management Theory

Modern management theories have focused on the impact of individuals relative to the performance of the organization. With the adoption of these principles, organizational leadership was not focused control or individual freedom but both control and individual freedom together (Weymes, 2005, p. 54). Balance between control and freedom was essential for both to have high performing individuals that led to heightened performance of the organization.

Traditional management theory. Traditional management theory was introduced during the beginning of the industrial revolution at the turn of the 20th century when F.W. Taylor published The Principles of Scientific Management (Taylor, 1911). Theories outlined in Taylor's book were rooted in the theory of bureaucratic sociology of Max Weber and followed the philosophical writings of Carl Marx. During this time in history, the nature of work was transitioning from small companies producing limited volume to large institutions and organizations with mass production capabilities. Organizing labor into intricate systems required stringent controls to manage employee behaviors. As part of this scientific approach, Taylor states "In the past the man has been first; in the future the system must be first" (Taylor, 1911). The three main topics that Taylor addressed were:

1. To point out the great loss the whole country was suffering through inefficiency in near all daily tasks.
2. Convince the reader that remedies for inefficiencies lie in systematic management rather than in unusual or extraordinary men.
3. To prove that the best management is a true science, resting upon clearly defined laws, rules, and principles as a foundation (p.7).

As capitalism grew, social characteristics of life developed where man controlled man and man exchanged labor (perceived behavior) for financial rewards (Weymes, 2005, p. 145). Traditional management theory was engrained in a command and control philosophy.

Modern management theory. Douglas McGregor challenged Taylors approach to management in his book *The Human Side of Enterprise* (McGregor, 1960). Employees no longer needed to be solely rewarded financially with rigid controls to influence behavior, but be motivated by job satisfaction and entrusted to manage and direct their behavior. The 1960's were a time of great economic growth in the United States, and McGregor's theories were mostly dismissed. McGregor's theories resurfaced during the latter part of the 1970's when manufacturing companies were facing extreme competition from Asian markets. At this time, Edward Deming introduced the theory of Total Quality Management (TQM) (Lagrosen, 2003). Theory and approach of TQM summarized Deming's 14 points to move managerial philosophy away from a systematic approach to one that is more people focused (Weymes, 2005). Organizations needed to establish a sense of purpose, drive out fear, break down inter-department walls and educate employees with the purpose of building trust and pride throughout the organization.

In the early 1990's the concept of the High Performing Organization (HPO) gained popularity as part of a company's core beliefs. HPO's value people (Black & La Venture, 2015). Company performance, much like quality, was perceived, "you know it when you see it but you cannot define it" (Lawler, 1997). Edward Lawler identified six characteristics of a HPO focused on individual involvement, effective leadership, and distancing away from processes and systems as a foundation for control (Lawler, 1997,). The six characteristics were:

1. Organizations can be the ultimate competitive advantage.

2. Involvement can be the most effective source of control.
3. All employees must add significant value.
4. Lateral processes are the key to organizational effectiveness.
5. Organizations should be designed around products and customers (not functions).
6. Efficient leadership is the key to organizational leadership (p.22).

Modern management theory during the last few decades has fore-shadowed the downfall of bureaucracy. Organizations in today's society have been vested in shared values and mutual trust (Weymes, 2005). The implication of these approaches and theories has been that employees are not controlled by strict performance criteria, but by the knowledge and skills that should be embraced to allow an organization to obtain objectives.

High performing organizations. HPO's have been defined by Black & La Venture (2015) in the book, *The Human Factor to Profitability* as "an organization that embodies people-first values, creates a strong and positive culture of trust amongst its people, and thus sustains a high level of profitability" (p. 38). Many employee-owned organizations have demonstrated the ability to be deemed HPO's as defined by Black and La Venture. Within strong employee-owned organization, employees shared a common belief in ownership. The belief that they have a voice in organizational direction, and that pride and satisfaction came from shared goals and trust within the organization. People-first cultures have been found to be the core of any HPO. Organizational leadership, business strategies and human resource strategies of the organization have alignment to create a culture within the organization in which people come first (Black & La Venture, 2015).

Black and La Venture (2015) provided a perspective that a segment shifts within business toward "social enterprise". As new generations became part of the work force over the past

couple of decades, a competition developed amongst businesses to sustain their competitive edge through the employees they nurtured and developed. Potential and existing employees were not solely looking at salary and benefits as past generations did. This new generation of employees' exhibited a desire to feel that they provided some good to the world through their work or as an indirect result of their work. Social enterprise aimed to generate social good while also maintaining profit. The focus and type of social good varied significantly and played a defining role within businesses culture.

Employee Stock Ownership Plans (ESOP)

An employee stock ownership plan (ESOP), can be described as a type of employee retirement plan. ESOP's were unique when compared against other retirement plans. An ESOP blends tax benefits of a qualified retirement plan with corporate finance and employees' retirement benefits with corporate objectives. The purpose of creating an ESOP has been to provide beneficial ownership to employees without having to invest personal income.

Origins and history of ESOP's. Louis Kelso, a San Francisco attorney and investment banker, has been widely credited with being the inventor and pioneer of what we refer to as an ESOP today. In 1956, Kelso developed the first company ownership transfer for the San Francisco based newspaper Peninsula Newspaper, Inc. The chosen successors were the employees and managers of the company (Menke, 2010). The founders of the Peninsula Newspapers had seen far too many competitors scooped up by larger newspaper conglomerates and witnessed the effects of these acquisitions: key employees separated from the company, company culture and identity decimated and reduction in quality driven by cost cuts across the board (Menke, 2010). What later became known as *The Kelso Plan,* the Peninsula Newspapers, Inc. transition was the original embodiment of an ESOP. Over the next 25 years Peninsula

Newspapers, Inc. continued to succeed under employee ownership and paid out millions of dollars of benefit to its participants prior to being sold.

Employee ownership prior to legislation. Louis Kelso may have instituted the first ESOP after the development of legislation in 1956 allowing ESOP's, but concepts of employee ownership have been tracked to earlier generations. Prior to ESOP legislation, many successful organizations such as Sear Roebuck, J.C. Penny, and Lowe have relied on employee stock ownership to motivate and increase productivity. These organizations provided ownership through tax qualified stock bonus plans, as added to the IRS tax code of 1921, where the Company would invest the majority of funds in the profit sharing programs in shares of company stock (Menke, 2010).

ESOP legislation. Following 1956 legislation ESOP adoption was slow due to every ESOP transaction was required to be reviewed by the National Office of the IRS (Menke, 2010). 1964 brought a restructuring of legislation from 1956, allowing for plan and trust documents to be submitted to IRS regional offices. This made adaption of ESOP's easier as the procedures for ESOP's were now the same as any other qualified plan (Menke, 2010). Growth and development of ESOP's prospered in the decade following the 1964 legislation, but came to a sudden halt in 1974 when the United States Senate passed their version of the Employee Retirement Security Act of 1974 (ERISA). ERISA defined that any transaction between a qualified plan and a party-in-interest was prohibited (Menke, 2010). An exemption for ESOP's was omitted as part of the ERISA legislation, but fortunately this omission was quickly identified. With the assistance of Senator Russel B. Long and Louis Kelso, the definition and exemption for ESOP was included in the final version of ERISA (Menke, 2010).

In 1984 Senator Long, still acting chairman of the Senate Finance Committee, knew that something was required to stimulate the economy. As such, Senator Long introduced the Tax Reform Act of 1984 (Menke, 2010). Within the tax reform act here were four primary provisions that assisted ESOP's through the passing of this legislation. First, was the tax-free roll-over treatment that allowed the deferral of capital gains taxation if the ESOP obtained greater than 30% of the stocks of a privately held C-corporation and reinvested the proceeds of the sale to the ESOP into stock and bonds of other U.S. corporations within twelve months (IRC Section 1042) (Menke, 2010). This cleared the way for owners of privately held companies to transfer ownership to the next generation without incurring capital gains tax. Second, the 50% Interest Exclusion provision that allowed financial institutions to exclude 50% of the interest income on qualified ESOP loans from the lender's taxable income (IRC Section 133) (Menke, 2010). Third, was the ESOP Estate Tax assumption which allowed qualified estates to assume the estate tax of the business owner in return for transfer of company stock to the ESOP of equal value to the estate tax liability (IRC Section 2210) (Menke, 2010). The fourth was the provision of Deductible Dividends. This provision allowed the company to deduct reasonable dividends paid on shares of common stock held by the ESOP trust provided that the dividends were passed through the participants or used to make loan payments incurred to purchase company stock (IRC Section 404(k)) (Menke, 2010). In the decade following the Tax Reform Act of 1984, the number of ESOP participating companies grew more than 30% (Rosen, 2005).

ESOP as a Business Succession Tool

Three major trends that changed the economic landscape in the early 1980s affected ESOP's. First, the passage of the Economic Recovery Act of 1981, which dropped personal tax rates below that of corporate rates. As a direct result, the majority of privately held companies

changed from C-corporations to S-corporations to lower their tax basis. A down-side to this shift was that the number of companies that adopted ESOP's suffered due to the provision that S-corporations tax qualified plans was not permitted to own stock of S-corporations (Menke, 2010).

Second, the U.S. economy saw a significant shift from a manufacturing-based to a service-based economy. Supported largely by the expanding computer market, entrepreneurs were starting up engineering, software, and consulting firms. Since most of these new service industries were launched by relatively young entrepreneurs and S-corporations could not adopt ESOP's, the 1980's and 1990's saw relatively flat growth in new ESOP's. In contrast to manufacturing business employees of the past, service business employees were the logical buyers when it comes to business succession planning The Small Business Job Protection Act of 1996 provided S-corporations the ability to permit ESOP's as eligible shareholders of S-corporations (IRC Section 1361(c)(6)) (Menke, 2010). Since 1996, ESOP's have become the preferred succession tool for many S-corporation owners. The ESOP Association of America now have more S-corporation members than C-corporation members, and an entirely new association - the Employee-Owned S-corporation of America (ESCA) - has been established to lobby for legislation for S-corporation ESOP's (ESCA, 2017).

The third major economic trend of the past 35 years has been the steady decline of union membership, a direct consequence of manufacturing firms moving to foreign countries. Reports have stated there are now more employee owners in the United States than union members (Rosen, 2008). These numbers have been expected to continue to separate in the decades to come with more owners of privately held service businesses retire and pass ownership along to the successor: the employees (Rosen, 2008).

ESOPs have played many different roles since Kelso introduced the leveraged stock bonus plan in 1956 to solve a specific business succession problem. Now in the new millennium, ESOP's have returned back to their roots as a succession tool. Over the years, ESOP's have provided business succession programs to support tens of thousands of business owners and have created wealth, economic security, and consumer purchasing power for tens of millions of employees who have been fortunate to work for employee-owned companies (Menke, 2010).

S-corporation ESOPs

Prior to 1998, S-corporations could not sponsor ESOPs (Freeman & Knoll, 2008). S-corporations represent nonpublic corporations that are taxed as pass-through entities and subject to a wide range of restrictions, including limits on the number and identity of shareholders. In the event a S-corporation violated any of those restrictions, the corporation was taxed as a C-corporation and corporate income was subject to two levels of taxation (Freeman & Knoll, 2008). Part of a broad reform relating to S-corporations, ESOPs first became eligible to hold interests in S-corporations January 1, 1998 and as a result emerged the current S-corporation ESOP participation.

An NCEO (2016) survey accounted for 9,774 ESOPs with assets totaling more than $900 billion as of February 2008. The above stated ESOPs covered more than 11 million employees – one in every 12 private sector employees in the United States. As of late 2007, 40% of all ESOPs were S-corporations (Owners at Work, 2007); such companies come in a wide variety of shapes and sizes represented some of the smallest and some of the largest ESOPs. As of March 2017, an article released by NCEO: "*ESOPS by the Numbers",* depicts how ESOPs in the United States has changed over the past ten years. Although the number of active plans and has decreased nearly one-third (6,717) active plans, but the number of participant has increased by three million

active participants with assets totaling more than $1.4 trillion an increase of 36%. S-corporations still account for about 40% of all ESOPs. For the purposes of this study on Western Comforts potential transition to an S-corporation ESOP it is interesting to note that companies that have ESOPs on the west coast represented 23% of all ESOP, with California companies accounting for more than 40% of those companies with 11% being in the construction field similar to Western Comfort.

Financial Drivers for an ESOP

Economists and financial scholars have been skeptical of the possibility of efficient decision making and supervision in employee-owned firms (Bonin, 1993). According to Pugh firms which used ESOPs as a takeover defense tool in the 1980's subsequently performed poorly (Pugh, 2000). Nonetheless, the overwhelming majority of empirical studies have concluded that employee ownership leads to marked improved performance (Freeman & Knoll, 2008). A survey by Blasi, (2003) depicts all 70 empirical employee ownership studies that have been conducted up until that point indicated large average gains obtained from employee ownership. The authors stated:

The studies show that on average, companies and their investors made a profit over and above any ownership they dished out to employees. They gave workers and eight percent ownership stake, and in return enjoyed an average of a two-percentage point higher return on diluted shares they held, (Blaise, 2003, p. 16)

Productivity and profitability. Profits are attributed to increased productivity. Kruse & Blasi (1997) summarized eleven empirical studies on the relationship between employee ownership and firm performance. Analyses of these studies indicated employee ownership correlated positively with productivity gains of four percent. Productivity gains were transferred

directly to bottom line financial results at the end of the year. In addition, a firm's profit margins, post ESOP adoption allowed an S-corporation that had been earning at eight percent profits to increase profit margins to between ten and twelve percent (Freeman & Knoll, 2008).

Tax treatment of S-ESOPs. S-corporations historically have not been subject to the corporate income tax since 1998. Instead, all items of income, gain, loss, expense, or basis pass through pro-rata to the shareholders. From a tax perspective, an S-corporation was considered similar to as to a partnership rather than a corporation (Freeman & Knoll, 2008).

In order to be taxed as an S-corporation, a corporation must have met certain requirements (IRC Code Section 1361), and elected to be treated under subchapter S of the Internal Revenue Code. Contributions made to the ESOP were deemed tax deductible to employer. When the shareholder was an S-corporation with sole proprietorship or partnership those deductions were passed through to the shareholder. If the S-corporation owned 100 % of the corporation, there was no one to whom to pass through those deductions. The benefits of the S-corporation ESOP were not taxed when the ESOP was established, or when the shares were released into the employees' individual accounts. Instead, the employees were taxed only when withdrawal of shares from individual accounts.

Tax advantages. Leveraged ESOPs represented the most common form of ESOP both for S and C corporations. In a leveraged ESOP, the corporation established a trust, which borrowed money to purchase shares from the employer or shareholder. The employer made regular contributions to the trust on behalf of employees for the benefit of the employees. These contributions go to pay principle and interest on the ESOP loan. These payments were fully deductible by the employer (Freeman & Knoll, 2008).

Economic drivers. Expanded economic activity has been widely seen as not only benefiting a firm or its employees, but a societal benefit. The expansion of the tax base has generated income tax, payroll and sales tax and job growth. Based on Dun and Bradstreet reports of all ESOPs, Blair, et al. (2000) found that ESOPs created jobs at a much more rapid rate – 2.3% annually. That equated to 85,000 jobs annually, directly attributed to S-ESOPs.

ESOP Effects on Employees

Members of an employee-ownership through ESOP utilization have been clearly the greatest beneficiaries. As a result, substantial wealth has been gained without risk or sacrifice associated with business creation or purchase (Freeman, 2007). Employee-owners obtain additional benefits of being part of an ESOP, including increased job satisfaction and security.

Increased wages. With all of the benefits ascribed to employees participating within an ESOP, compensation gain for individual employees has been the most unequivocal (Freeman, 2007). Employees obtained a great windfall of company equity, but on average, compensation of workers within ESOPs were at least as high than that of employees in a non-employee-owned firm. In a research study by Joseph Blasi in 1996 titled “Employee stock ownership and corporate performance among public companies” stated an average of eight percent higher compensation within public companies with broad-based ESOP’s with at least five percent of company stock vested in the plan (Blasi, 1996). In an additional study a couple of years later at Washington State in 1998 by Peter Kardas stated these findings somewhat differently. Kardas found that the level of compensation was similar between ESOP and non-ESOP organizations, indicated that ESOP ownership wealth does not substitute for present day income, but rather has been in addition to worker pay and benefits, and thus resulted in greater overall compensation (Kardas, 1998).

Employment stability. As part of a study from 1983 to 1995. Researchers found that increased job security was validated by longer average employee tenure. Within broad-based employee ownership plans holding greater than 17% company stock as compared to otherwise similar companies without employee ownership (Blair, 2000).

ESOP Effects on Businesses

Employee ownership research has demonstrated a strong and positive business-level effect when ESOP's were adopted. These studies indicated that ESOP businesses were more productive and profitable, survive longer, and resulted in increased shareholder returns. With the adoption of ESOP's, businesses tended to outperform pre-adoption performance levels when compared to matched firms (Freeman, 2007).

Summary

The literature review described effects of culture on organizational performance and the need for it to be assessed. Relevant history and background about business theory and evolution of ESOP's that aided Western Comfort in enhancing their succession planning. The review included research, succession strategies, financial drivers for ESOP creation within an S-corporation, and effects on employees of and ESOP. Chapter three will discuss the methodology that will be used to assess the financial stability and current culture at Western comfort to support their desire to convert from a sole proprietorship to partial or fully employee owned ESOP.

Chapter III: Methodology

This chapter outlined the methods utilized to collect data to aid Western Comfort and the founder reach the goal of transitioning the organization from a current structure as an S-corporation with a single stock owner to an S-corporation with ESOP features within the next three fiscal years. Data gathered to support the objective of the study were conducted in accordance with University of Wisconsin–Stout Institutional Review Board (IRB).

Western Comfort's objective was to perform an evaluation that would validate the current organizational culture and financial position to successfully transition to a partially or fully employee owned organizational model. Data obtained during this study was structured to aid in executing that objective, and development of a proposed ESOP business model for Western Comfort.

Western Comfort had operated as an S-corporation with a single stock owner since being founded by the current president in 1983. The current business model had worked well, but required adaptation as the founder evaluated retirement options from the company. As a result, the current business model would not allow the founder to depart without selling the organization to a third party. With permission from Western Comfort (see Appendix A) this study obtained data to evaluate their financial position and business culture to support the founders exit through the transition to an ESOP, leaving the company to the employees.

Subject Selection and Description

To properly assess the financial health and culture at Western Comfort, data needed to be obtained from all levels within the organization. Data was obtained through a two-phased approach. Financial data was primarily gathered by developing a performance matrix that compared the financial performance of Western Comfort from 2012 through 2016 in

collaboration with the Chief Financial Officer (CFO) and the finance team with signed informed consent forms (see Appendix B). The financial assessment (see Appendix C) established that Western Comfort met the minimum qualifications to be considered for ESOP, and that the organization over the past five fiscal years was healthy and stable to support organizational change. Secondly, organizational culture data was obtained with signed informed consent (see Appendix D) utilizing a paper hardcopy survey (see Appendix E) created and designed by the researcher that was distributed to all Western Comfort employees (approximately 70 employees) with the exception of the executive leadership team (CEO, CFO and COO). The survey assessed the strengths and weaknesses of the organization and ESOP knowledge and acceptance. This survey provided a baseline that aided evaluation for organizational change in the future. For the purpose of this study the researcher determined that the financial assessment would be conducted first to ensure that the organization was financially in good standing prior to assessing the organizational culture. This chapter provides the roadmap utilized to conduct this two-phased assessment of Western Comfort's organizational transitional readiness.

Study Population

The financial sample population included all financial income statements for the past five fiscal years from 2012 through 2016 for Western Comfort. Resource support for obtaining and analyzing financial information was provided by the CFO and financial staff. The sample financial information was isolated to data that could be obtained from the organizations income statements. Data included information such as gross revenue, costs of goods sold, operating expenses, gross profit, and margin percentage.

The culture survey population sample encompassed all salaried and hourly work forces at Western Comfort with exclusion taken for the founder (CEO), CFO and COO (primary

researcher). The sample demographic of those that completed the survey included management, administration, shop personnel, and field personnel (approximately 70), and employees that had tenure with the organization ranging from three months to more than 25 years.

Instrumentation

The organizational financial assessment was developed by the researcher based on information gathered during the literature review portion of this study, and tailored to meet the financial needs of evaluation at Western Comfort. To ensure the structure of the assessment met the needs of Western Comforts future strategic development, meetings were held with executive leadership of the organization. Meetings were critical to identifying attributes Western Comfort required to assess the financial health within the organization.

The assessment was needed to systematically evaluate their financial position of their organization for possible transition to an ESOP structure. For this purpose, two sections on organizational financials were included to obtain a gauge on organizational position for business model transition. The assessment focused on data available on the organization's income statements to validate their financial standing. Listed below are the key categories where data was obtained from:

1. ESOP Minimum Qualifications Checklist
2. Five Year Income Statement Assessment

With the five-year income statement assessment, five metrics were isolated and compared against a year over year comparison. The five key areas of gross revenue, costs of goods sold, operating expenses, gross profit, and profit margin were evaluated. By constructing the assessment in a manner where Western Comfort's executive leadership verified each individual area or all areas as a whole determined the relative stability and trends for the organization to

ensure it was positioned to make the desired transition. A sample of the financial assessment can be found in Appendix C.

Upon successful completion of the financial assessment an organizational culture survey was developed and designed by the researcher based on information gathered during the literature review portion of this study. This survey again was tailored to meet the needs of evaluation at Western Comfort transitional readiness to an ESOP.

The survey was a first for Western Comfort; never before had they systematically evaluated the organizational culture of their organization. Because of this, a section on organizational climate was included to obtain a barometer for employee satisfaction. The question set focused on the employee perceptions of the following areas listed below rather than relying on past assumptions and behaviors of their work force.

1. Compensation and Rewards,
2. Morale
3. Servant Leadership
4. Change readiness

In addition to the section on organizational climate measured by overall employee satisfaction, four additional categories were included: engagement, business purpose, operational affinity and ESOP. Each of these primary categories within the survey was sub- divided into three categories to break down data into smaller and more comprehensive data sets. By constructing the survey in this manner Western Comfort's executive leadership was able to isolate smaller areas to focus future organizational improvement efforts within the five primary categories. Definitions of primary and sub-categories can be located within appendix F. The

culture survey portion consisted of 75 questions, five primary categories with 15 questions in each.

The final instrument to assess culture at Western Comfort consisted of 75 questions utilizing the model portrayed above. In connection, the survey included two ranking questions and two demographic questions, along with a final section for participants to include suggestions and comments. The entire survey totaled 80 questions.

Data Collection Methods

Strategic planning meetings with executive leadership determined that the CFO and the finance team would be charged with providing the relative data to complete the financial assessment. Subsequent to these strategic planning meetings, the assessment was distributed by the researcher to the CFO. CFO was provided one week to complete and return the completed assessment. Completed assessments were returned to researcher for further graphical evaluation of the data provided by the completed assessment.

For the culture survey portion of this study, communications to affected employees were mailed to as a formal letter as notification of the culture assessment at Western Comfort. The letter included information regarding topics to be covered and the importance of the survey to the researcher and the organization, and informed employees that their anonymity would be guaranteed. This letter also informed employee's directions that the survey would be distributed to them in the near future and recommended that the survey be completed during normal working hours. See Appendix G for a sample copy of the letter sent to employees. Subsequent to the employee letter, the survey was distributed by the researcher in small groups to employees in their work areas or on job sites. Communications included a reiteration of the information that

had been provided to employees in the previous letter that had been mailed to their homes, and the informed consent for (see Appendix D).

Upon the conclusion of these personal communication sessions by the researcher, the survey was distributed. Participants were provided one week to complete and return the completed surveys. Completed assessments were to be returned to a dedicated drop box located at the company's main headquarters, or to the site foreman that had been provided a prepaid addressed envelope to return the completed surveys to the researcher.

Limitations

Prior to the start of research for this study the following limitations were identified:

1. The time frame given to make the determinations that Western Comfort is ready to convert to an ESOP is limited to the next fiscal year.
2. This study is specific to Western Comfort and may not be generalized with other organizational systems.
3. The data obtained during the study comes from a wide variety of sources, and assumes that this information will fit the determined model of ESOP that will be the best fit for Western Comfort.
4. The physical location of the affected employees of Western Comfort is varied. Although the organizational leadership team is centrally located, the workforce with the largest benefit and associated change are dispersed across many active jobsites within a three-hour radius of the Western Comfort headquarters.
5. Conversion to an S-corporation ESOP is the only business model being considered at this time. Other business models are not considered within the scope of this project.

Data Analysis

Each of the two sections within the financial assessment instrument will be evaluated individually. The sections include ESOP minimum qualification, and a five-year income assessment. A completed ESOP qualifications checklist, and line chart graphics discussing these sections and sub-sections can be examined in appendix H with the final results of the assessment.

Each question in the culture survey was separated into a category an associated sub-category. The categories include: Engagement, Business Purpose, Operational Affinity, Employee Satisfaction and ESOP.

Summary

Chapter three discussed the methodology and instruments that would be utilized to measure Western Comforts readiness to for transition from an S-corporation with a sole proprietorship to an ESOP. In chapter four, an in-depth analysis will be discussed from the finding of the financial assessment, and the organizational culture survey.

Chapter IV: Results

This chapter presents the results obtained from the five-year financial assessment and organization culture survey at Western Comfort. The financial assessment see Appendix C was completed by the Chief Financial Officer (CFO) while the organization culture assessment see Appendix E was dispersed to 70 employees within the organization with a response rate of 27/70 or 38.5%. The purpose of this study was to develop assessment tools to identify the operational readiness for Western Comfort to transition from an S-corporation with a single stock holder to an S-corporation with an ESOP. By evaluating both financial stability and organizational culture this study would not only ensure that Western Comfort was financially position for the transition, but that the culture within the organization was of relative health that the transition to an ESOP would be successful and beneficial to all employees.

By studying the financial health and culture in parallel, this study was able to identify organizational readiness and opportunities for improvements within Western Comfort. This provided a path forward for the organization as the founder plans for exit from the company through retirement. Data portrayed in this chapter will assist in establishing the operational readiness for Western Comfort.

Financial assessment and culture survey participants provided the researcher with data to meet the objectives of the study. The financial assessment tool was comprised of two parts. The first section was a standardized pre-qualification checklist to ensure that the organization met the minimum requirements to become an S-corporation with an ESOP. The second portion of the financial assessment provided financial data over the last five full fiscal years from 2012 through 2016 with data that was obtained from the organizations income statements. Data included in this

section included items such as gross revenue, costs of goods sold, operating expenses, gross profit, and margin percentage.

Financial Assessment

The first section of the financial assessment focused on if Western Comfort met the minimum qualifications to become an S-corporation with an ESOP. Data provided below shows that Western Comfort met all of the requirements to become an S-corporation with an ESOP. Achieving the first milestone in their journey to transitioning to an ESOP.

Yes	**No**	**Question:**
√		Does one or more major shareholder desire to sell all or part of their company shares now or over the next five years?
√		Does your company have greater than $1 million in revenues?
√		Does your company have more than 10 employees?
√		Is your company profitable?
√		Are your normalized pretax earnings greater than $200,000?
√		Is your company a corporation (either S or C)?
√		Is your business in any industry other than professional services (doctors, dentists, lawyers)?

Figure 1. ESOP minimum qualifications questionnaire.

The second section of the financial assessment focused on the organizations financial performance over the past five fiscal years. The data shown in the graphs below the organization has been profitable over the past five years, but there is not a consistent trend of improvement year over year. The five-year average of gross revenue was $16,062,640 with a year over year comparison ranging a positive 14% to negative -16%. The five-year average of cost of goods sold were $11,524,897 with a year over year comparison ranging from a positive 13% to negative -11%. The five-year average for operating expenses was $2,320,908 with a year over year comparison ranging from negative -2% to negative -15%. The five-year average of gross profit was $1,901,522 with a year over year comparison ranging from positive 55% to a negative -69%. The five-year average profit margin was 15% with a year over year comparison ranging from positive 56% to a negative -65%.

Table 1

Five Year Financial Performance of Western Comfort

	Fiscal Years				
	2012	2013	2014	2015	2016
Gross Revenue	$14.93M	$17.06M	$16.84M	$17.14M	$14.34M
Costs of Goods Sold	$10.70M	$12.12M	$10.76M	$12.31M	$11.76M
Operating Expenses	$2.32M	$2.27M	$1.92M	$1.84M	$1.69M
Gross Profit	$1.90M	$2.68M	$4.16M	$2.99M	$0.92M
Profit Margin	13%	16%	25%	17%	6%

Organization Culture Survey

The culture survey provided data that aided in meeting the second objective of this study, which the culture within the organization would maintain or improve by implementing an S-corporation with and ESOP. The survey was comprised of 79 questions. Questions 1 and 2 were used to determine demographic information. The next five sections of the culture survey focused on different core competencies of highly successful organizational cultures and ESOP knowledge and understanding. Each section topic was broken down into three sub-sections with five relevant questions within. The first of these five sections was Engagement in developing human capability, ownership, and responsibility, focused on the areas of empowerment, competency and capability development, and adaptability. The second of five sections was Business Purpose, to establish meaningful long range directions for the organization focused on

the areas of strategic planning, core belief, and vision and mission. The third of five sections was Operational Affinity to establish the values and systems that are the foundation for a strong culture focused on the areas of customer first, communication, and teamwork. The fourth of five sections was Employee Satisfaction in creating an environment that is people-centered focused on the areas of morale, servant leadership, and compensation and rewards. The fifth of five sections was Employee Ownership in establishing an environment for a strong employee-owned organization focused on the areas of ownership, entrepreneurship, and ESOP education and belief. The final three questions of the organizational culture survey included two ranking questions and an open question where participants could add suggestions and comments related to the survey.

Culture survey question 1: Demographic information. The first question of the survey focused on the demographics of the participants that completed the survey. The data shown below shows that of the 70 culture surveys provided to members of the organization to complete that 27 or 38% completed and returned the survey to the researcher. The data indicates that the 38% of the organization that responded that 39% of the operations employees responded to the survey and represented 67% of the data pool, 27% of the administrative staff accounting for 18% of the data pool, and 66% of the management team representing 15% of the data obtained.

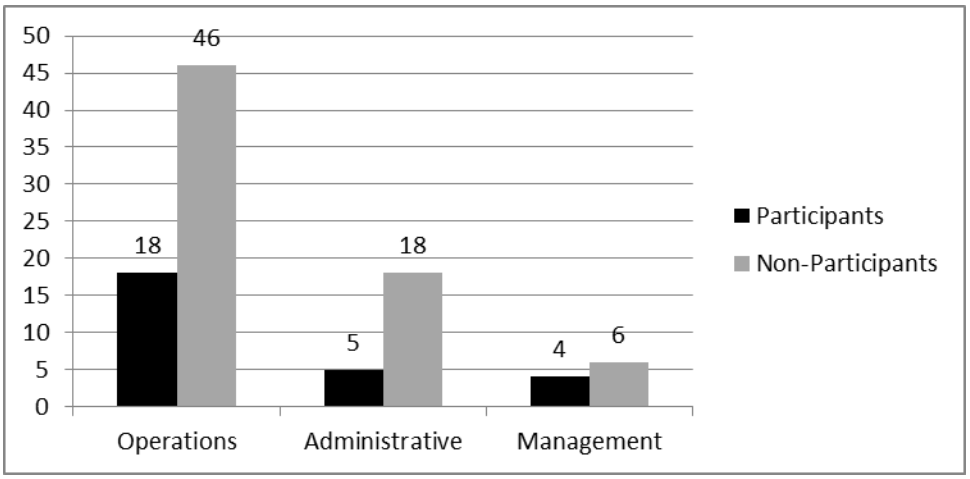

Figure 2. What best describes your position.

Culture survey question 2: Demographic information. Question two focused on demographics of employees that participated in completing the survey. Participants with 0-3 years of service represented 30% of the completed survey sample pool. Participants with 4-8 years of service represented 26% of the completed survey sample pool. Participants with 9-15 years of service represented 26% of the completed survey sample pool. Participants having 16 or more years of service representing 18% of the completed survey sample pool.

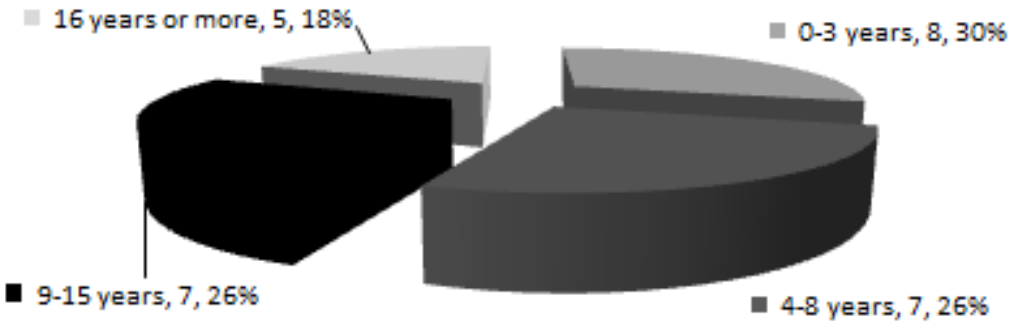

Figure 3. Years of service with Western Comfort.

Culture Survey Core Competency I: Engagement

Section one Engagement was divided into three categories designed around developing human capability, ownership, and responsibility. The engagement section focused on the areas of empowerment, competency and capability development, and adaptability. Providing insight on how the culture at Western Comfort has been cultivated to create future leaders within the organization.

Empowerment. The following questions were used to portray the behavior of organizational members regarding drive, capability and authority to manage one's own work. Empowerment develops a sense of responsibility and ownership towards the organization. The data shows that 78% of survey participants believe that they can contribute to the organizations success, 66% of the survey participants feel that they can make decisions on the job without fear of judgement, 78% indicated that they hold themselves accountable for individual contributions, 72% possess the ability and confidence to take measurable risks without direction, and 77% of the survey participants felt that other organizational members relied on them for decision making.

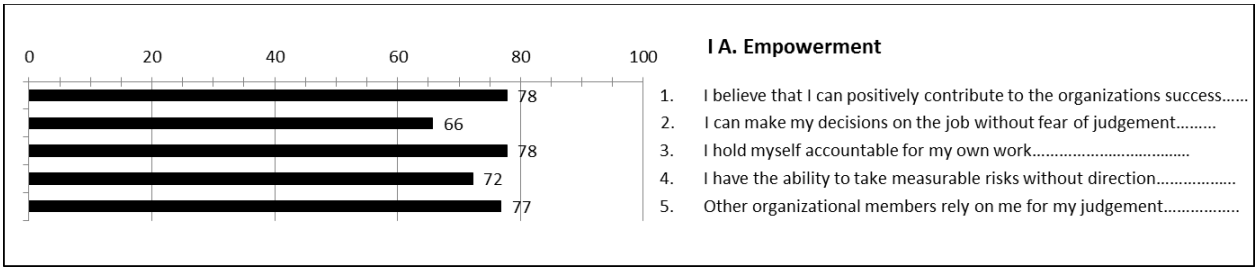

Figure 4. IA: Empowerment.

Competency and capability development. The following questions were used to portray the behavior of organizational members regarding individual's business and trade related knowledge and demonstrated skills. How the organization demonstrates its commitment in the

development of employee's skills to obtain a competitive advantage and meet evolving organizational needs. The data showed that 35% of the survey respondents identified problems arise because the skills to perform their job are lacking, 67% felt that the necessary training was provided by the organization to perform their job well, 64% of survey respondents feel that opportunities exist to develop job related skills, 66% said that their individual employee roles within the organization utilized current skills and abilities well, and 61% indicated that they were provided with the tools and equipment to perform at a high level.

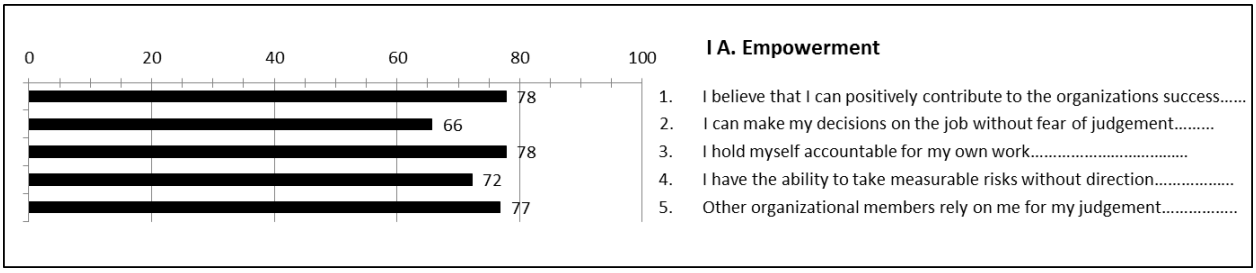

Figure 5. IB: Competencies & capability development.

Adaptability. The following questions were used to portray the behavior of organizational members regarding employee's response to accepting change within the organization. Adaptability creates creative ways to achieve challenging needs and ability to access the business environment conditions quickly, with the ability to react timely and anticipate future needs. The data showed that 46% of survey participants indicated that in the past when they have made organizational or departmental decision that they have led to change, 80% stated that attempts to create change within the organization have been meet with resistance, 56% said that they were shown respect for identifying improvements, 71% indicated that the immediate work group or team has a need for improvement, and survey participants feel that 41% of the people in the organization are open and quickly adapt to change.

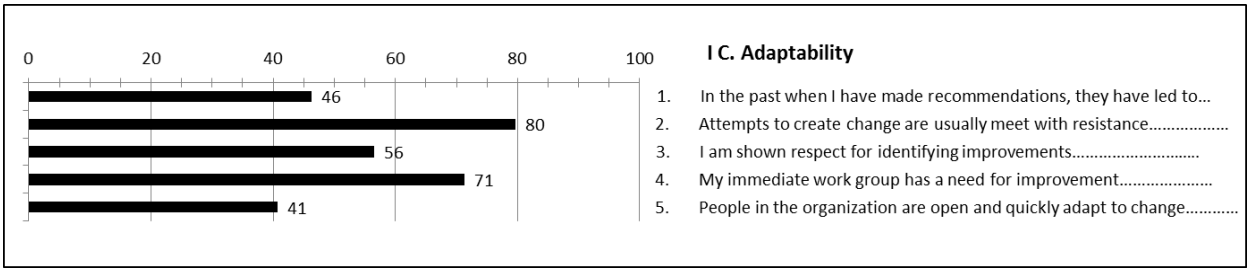

Figure 6. IC: Adaptability.

Culture Survey Core Competency II: Business Purpose

Section one Engagement was divided into three categories designed around establishing a meaningful long-range direction for the organization. The business purpose section focused on the areas of strategic planning, core beliefs, and vision and mission. The results provided a baseline for how members of the organization acted, believe and understand the vision of where the organization is going, and how to get there.

Strategic planning. The following questions were used to portray the behavior of organizational members regarding established strategic intentions to convey the organization's purpose, communicated in a concise manner that everyone can understand how their contributions affect the outcome in their work. Through clearly established goals and objectives that can be tied to the mission, vision, and strategy. The data showed 52% of survey respondents reported that the organizations strategic direction is clear to employees, 50% of participants reported individual goals were aligned with the goals of the organization, 56% support and stand behind the organizations strategic plan, 37% of employees indicated that the organization routinely measures performance against the strategic plan, and 47% of survey participants indicate having a voice in establishing the goals and objectives of the strategic plan.

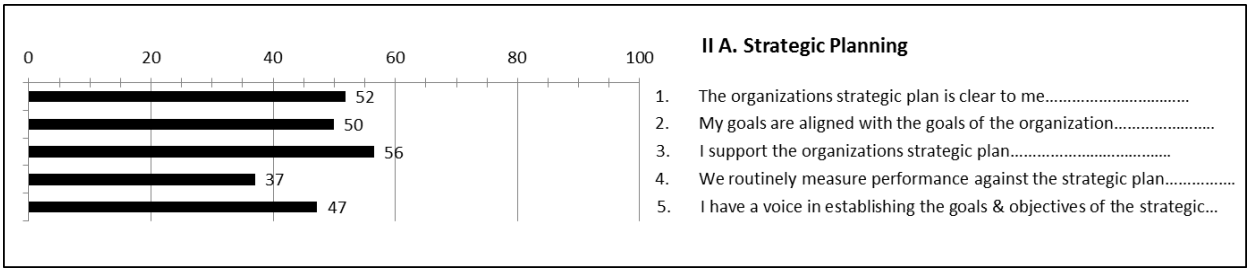

Figure 7. IIA: Strategic planning.

Core beliefs. The following questions were used to portray the behavior of organizational members regarding employees within the organization share a common set of values which establishes an identity and clear expectations. The data showed 60% said there are clear and consistent set of values to how the organization and members conduct business, 73% felt that members within the organization truly respect one another, 75% said that trust was held in high regard among all employees within the organization, 82% identified the values and beliefs in Western Comfort promote quality of work, and 94% or survey participants reported that the actions conducted by most employees are honest and in good standing.

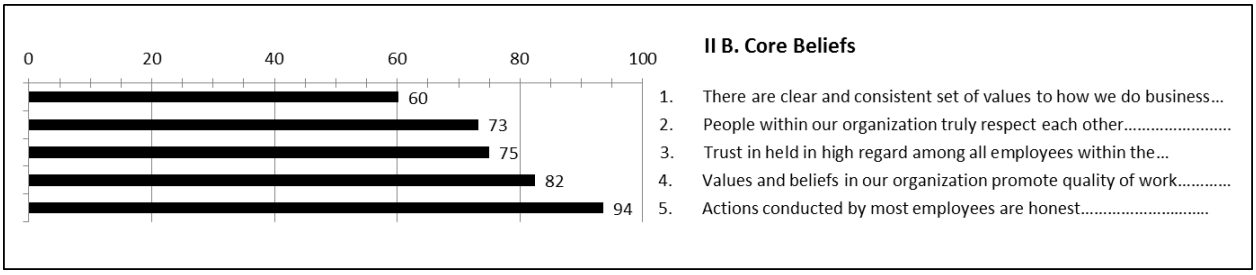

Figure 8. IIB: Core beliefs.

Vision and mission. The following questions were used to portray the behavior of organizational members regarding feeling that the organization has a shared outcome of the desired future state. Vision and mission embodies core values and embraces the hearts and minds of all within the organization, while providing guidance and instruction. The data showed 68% said that there is a shared vision of what the organization will be like in five years, 69%

identified the vision for the future is reasonably attainable, 41% portrayed that the vision and mission for the organization creates excitement and motivates employees, 66% of survey participants indicated that the decisions made are based on the organization mission and vision, and 52% reported a clear understanding of their role related to the vision and mission of Western Comfort.

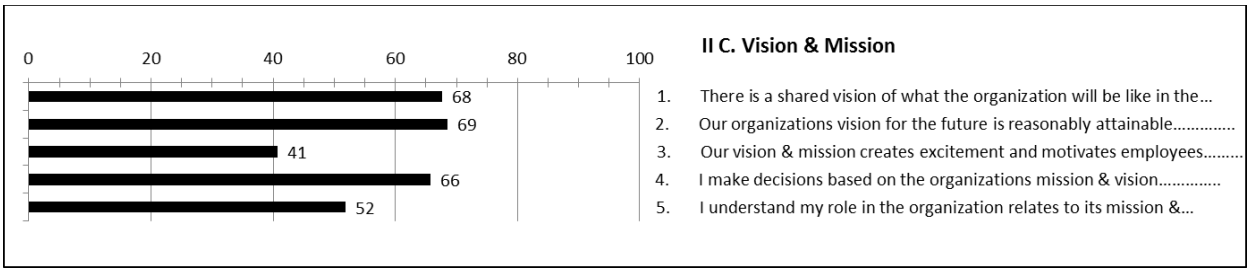

Figure 9. IIC: Vision & mission.

Culture Survey Core Competency III: Operational Affinity

Section two, Business Purpose was divided into three categories designed around establishing the values and systems that are the foundation for a strong culture. The operational affinity section focused on the areas of customer first, communication, and teamwork. This provided insight on the values and systems that support a strong organizational culture.

Customer first. The following questions were used to portray the behavior of organizational members towards meeting the needs and expectations of the person(s) for whom work is being performed. Including the ability to understand and react to customers, and anticipate future requirements. This category reflects the magnitude to which the organization is driven by a concern to satisfy the customer. The data showed 64% of survey participants reported that both individual and group recommendations lead to changes within the organization, 90% indicated care about what the customers think about Western Comforts product and services offers, 92% believe that the quality of work leads to future organizational

success, 79% identified that meeting commitments and deadlines are important to them, and 72% depicted that there is a sense of urgency to deliver quality products and services to Western Comforts customers.

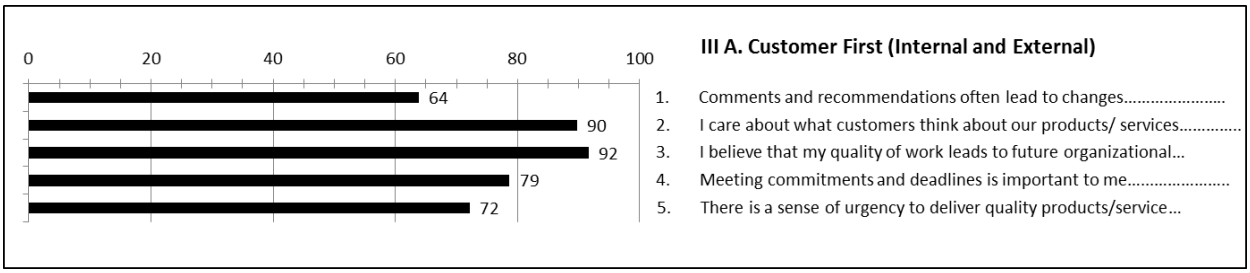

Figure 10. IIIA: Customer first (internal and external).

Communication. The following questions portray the behavior of organizational members regarding cross-functional divisions and business units within the organization capable of working together to achieve common objectives. Boundaries within the organization do not interfere with ability to successfully complete objectives. The data showed 67% communicate well across departments within the organization, 65% reported as comfortable to openly share ideas, fears, and concerns with other members of the organization, 67% feel that the organization expectations are communicated clearly, 56% said that organizational knowledge is shared openly to improve the overall team, and 50% of survey participants indicated that conflict is confronted directly to settle disputes rather than to avoid or ignore the problem(s) at hand.

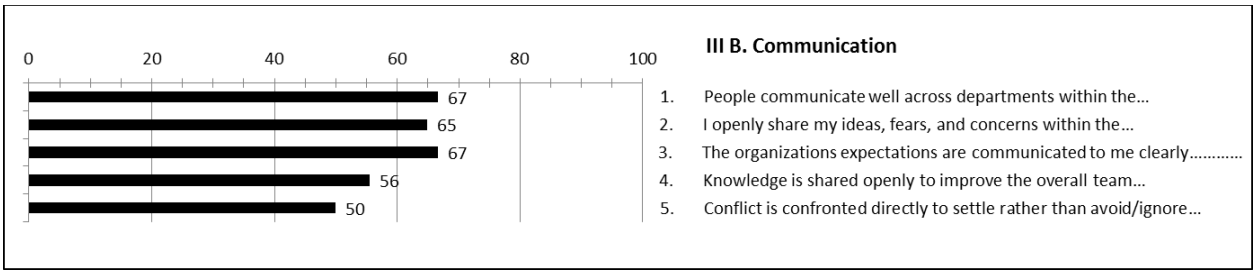

Figure 11. IIIB: Communication.

Teamwork. The following questions were used to portray the behavior of organizational members regarding the ability for an individual to work as a member of a team. The data showed 83% regularly participate as a member of a team, 94% reported that working as a team rather than individually lead to better results and outcomes, 75% indicated that differences of opinion are generally accepted and are still able to commit to working together, 55% reported a dislike of working in teams because others are not held accountable for individual actions, and 64% reported as empowered to make decisions when teams are formed.

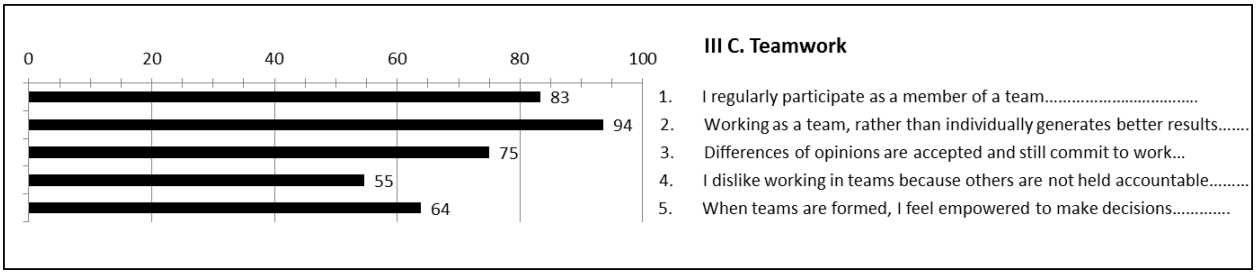

Figure 12. IIIC: Teamwork.

Culture Survey Core Competency IV: Employee Satisfaction

Section three, Operational Affinity was divided into three categories designed around creating an environment that is people-focused. The employee satisfaction section focused on the areas of compensation and rewards, morale, and servant leadership. Data from this section provided background on how these areas within the culture affect Western Comfort's ability to transition to an ESOP.

Compensation and rewards. The following questions were used to portray the behavior of organizational members regarding compensation including the employee's gross pay rate, incentives, and benefit programs. Rewards and recognition are shared with employees of warrant. The data showed 81% of survey participants feel that raises are based on how well the job is performed, 58% said the job provides or can provide personal growth opportunities, 75%

feel that the current compensation for their role within the organization is fair, 77% reported as rewarded for a job well done, and 82% of survey participants are satisfied with the total benefits package provided by the organization.

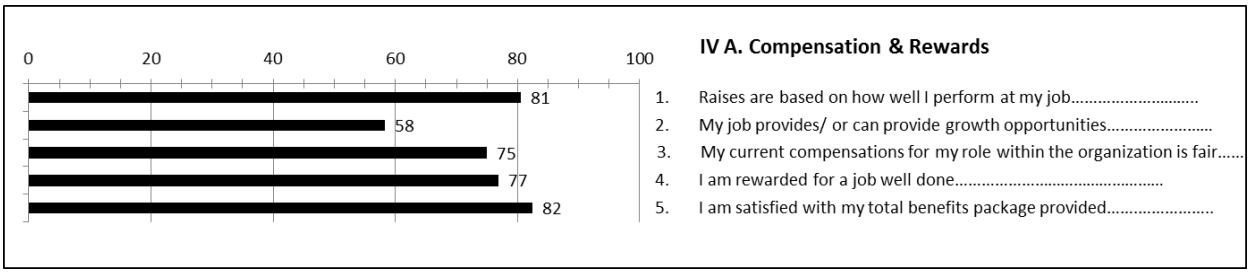

Figure 13. IVA: Compensation & rewards.

Morale. The following questions were used to portray the behavior of organizational members regarding their general state of feeling about the organization. Morale is how the employee feels about themselves and the company while on the job. The data showed 79% of participants have the tools available to manage pressures related to their job, 86% find enjoyment that the tasks they perform within their job, 83% believe that the job expectations are clear, 73% reported the belief that long-term job security by performing the job well, 86% of the survey participants envision working in the organization for the next five years.

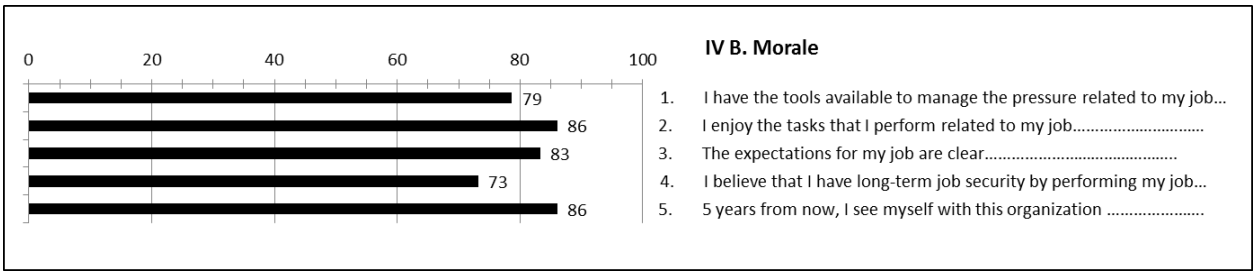

Figure 14. IV B: Morale.

Servant leadership. The following questions were used to portray the behavior of organizational members regarding practices that enriches the lives of individuals, and builds better organizations. The data showed 83% survey participants that the direct supervisor's daily

actions reflect the values of the organization, 71% indicated the supervisor follows through on his/her commitments to them individually, 78% reported that the immediate supervisor has a clear understanding of individual abilities as related to job responsibilities, 90% of survey participants have a positive relationship with their immediate supervisor, and 82% relayed that the supervisor has realistic expectations and development goals.

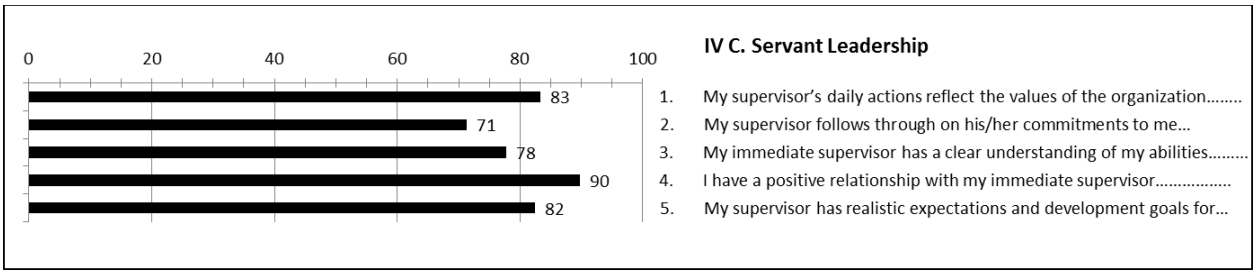

Figure 15. IV C: Servant leadership.

Culture Survey Core Competency V: Employee Ownership

Section four, Employee Satisfaction was divided into three categories designed around establishing an environment for a strong employee-owned organization. The business purpose section focused on the areas of education and belief, ownership, and entrepreneurship. These three areas provide an understanding as to employees' understanding and beliefs in regard to ESOPs and how implementation of an ESOP would affect the employee population at Western Comfort.

Education and belief. The following questions were used to portray the behavior of organizational members regarding how ESOP education has been provided, and there is a clear understanding of what it is meant by being classified as an employee-owned organization, along with the rules and benefits associated to each "owner". The data showed 74% of survey participants reported that management at Western Comfort truly believe in employee ownership, 48% of non-management at Western Comfort believe in employee ownership, 67% said that the

ESOP employee ownership plan is clear, 58% reported that the rules surrounding vesting and distribution in regards to an ESOP are clear, and 63% feel that Western Comfort makes finding answers regarding ESOPs easy to find.

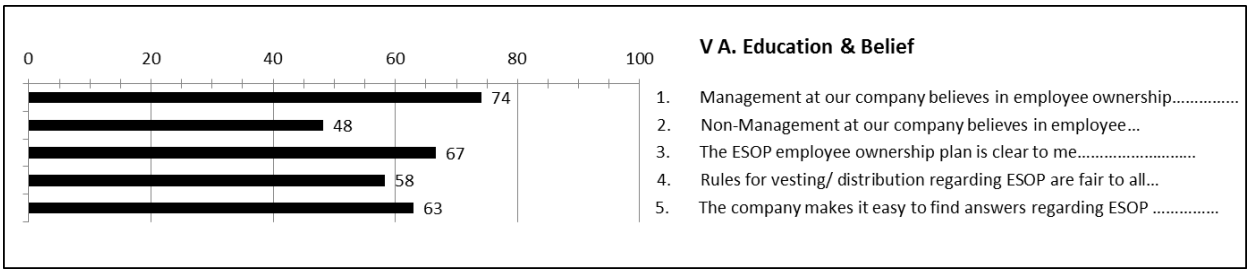

Figure 16. V A: Education and belief.

Ownership. The following questions were used to portray the behavior of organizational members surrounding ownership as the act, state, or right of possessing something. The data showed 48% of surveyed participants reported that employee ownership is important, 48% currently identified the actions are driven by a the thought of being an owner of Western Comfort without an ESOP currently in place, 49% of respondents understand how individual performance affects the company's performance, 46% said that an implementation of an ESOP would provide a higher sense of pride in the job, and 65% reported that employee ownership would provide long-term security for them as it related to the future of Western Comfort.

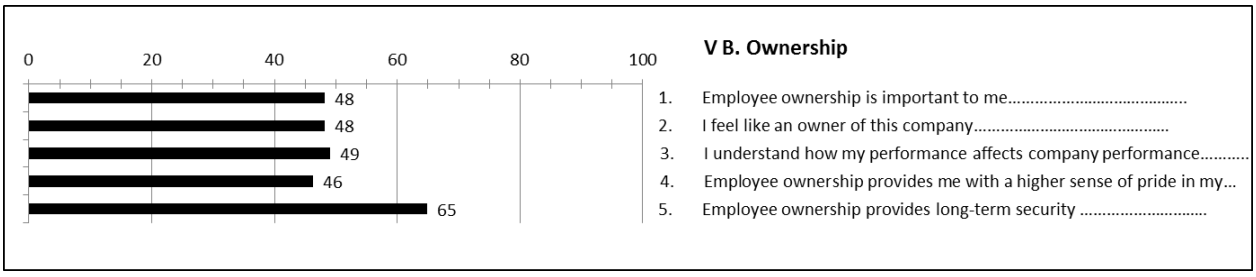

Figure 17. V B: Ownership.

Entrepreneurship. The following questions were used to portray the behavior of organizational members regarding a state of entrepreneurship within the organization.

Entrepreneurship is a gift that inspires others to become the best they can be. Passion, positivity, empowerment and ambition were reported as demonstrated by individuals of the employee population. The data showed 40% of the survey participants reported that Western Comfort does a good job of sharing key performance data with employees at all levels within the organization, 84% said the information that is shared provides a clear understanding of how it affects individual employees and the organization, 78% stated understanding how the company's performance affects the value of the ESOP, 61% feel that there are opportunities to share ideas for organizational improvements, and 44% of survey participants report that employees are encouraged to act as owners.

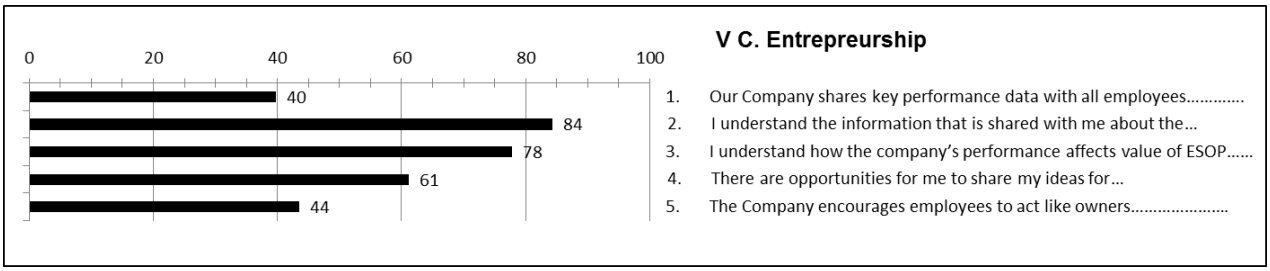

Figure 18. V C: Entrepreneurship.

Ranking Questions

The following two questions assisted the researcher to understand the underlining factors that motivate employees, and the type of compensation was most important to team members. These questions are not part of the culture circle graph, but were important to the researcher for determining organizational readiness of transitioning the organization from an S-corporation with a single stock holder to an S-corporation with an ESOP structure.

Employee satisfaction motivators. The first ranking question of the organizational culture survey focused on what provided motivation for employee satisfaction related to the types of compensation benefits the organization currently provides, or may be interested in

providing in future. Table 2 identifies the results, while figure 19 illustrates the results of this question graphically. The analysis of this question showed that seven of ten compensation benefits fell into the moderate range of the scoring scale with scores between three and six, based on the average response score of the reporting participants of the survey. Three questions that ranked as being of high importance to members of Western comfort were 401K Plan, health insurance and programs to help balance home and work (child care, flextime, etc.). With none of the compensation benefits falling into the low scoring range of three or less.

Table 2

What Type of Compensation is Important to you?

(Rank the following in order of importance with a score	
SCORES: High = >6 / Medium = >3 & < 6 / Low = < 3	
Vacation	Med.
Paid Holidays	Med.
401K Plan	High
Long Term Disability	Med.
Educational Assistance	Med.
Company Functions (parties, picnics, etc…)	Med.
Programs to help balance home and work (child care, flextime, etc…)	High
Health Insurance	High
Dental Insurance	Med.
Life Insurance	Med.
Others (please specify): _____	Low

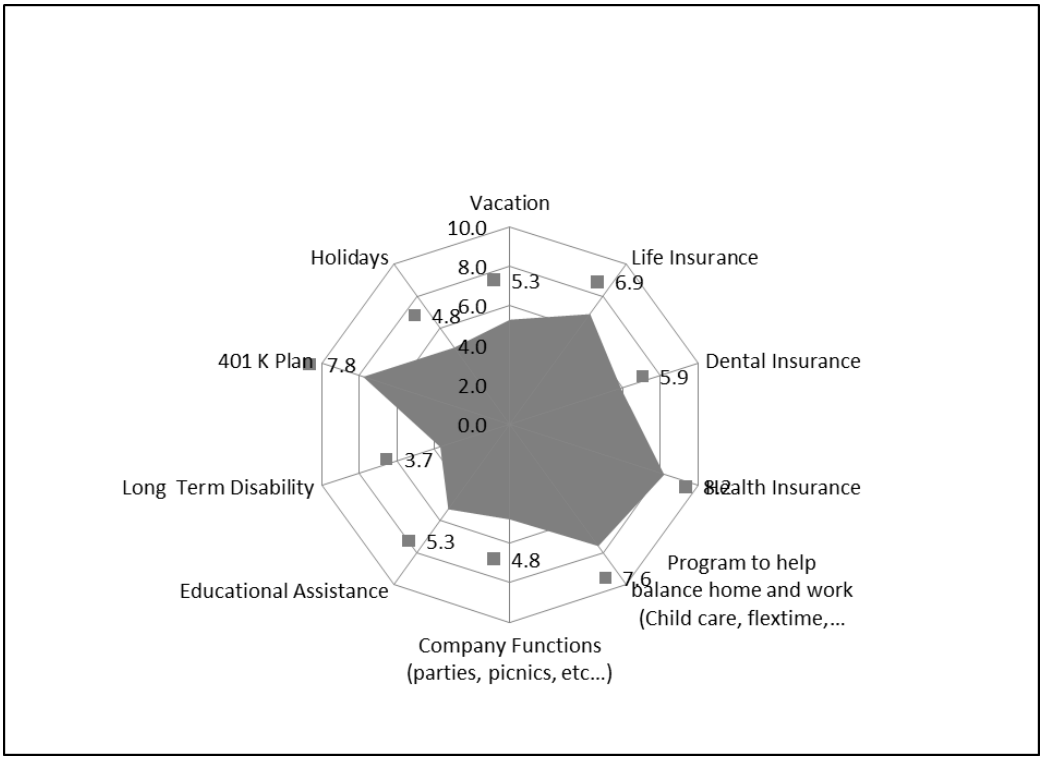

Figure 19. What type of compensation is important to you?

Employees are most satisfied when. The second ranking question focused on gaining an understanding when employees of Western Comfort are the most satisfied with their jobs. Participants of the organizational culture survey ranked six types of employee satisfaction, and were also provided with a seventh of other where they could specify another type that was not provided in the first six. The results of this question revealed that on average the employees at Western Comfort are most satisfied when they are meeting and exceeding customer's needs. Followed closely by being financially awarded for their actions, and are able to achieve personal career goals. Table 3 depicts the overall ranking of most to least important as identified by the participants of the survey. Figure 20 provides graphical representation of the results to this survey question.

Table 3

I am Most Satisfied with My Job When?

Rank the following in order of importance with a number (1=Most & 7= Least)	
Organizational goals are met	5.00
I am financially awarded	2.00
Public recognition for a job well done	4.00
Meeting and exceeding customers' needs	1.00
Achieve personal career goals	3.00
Our department is recognized as going above and beyond	6.00
Other (please specify):_____	7.00

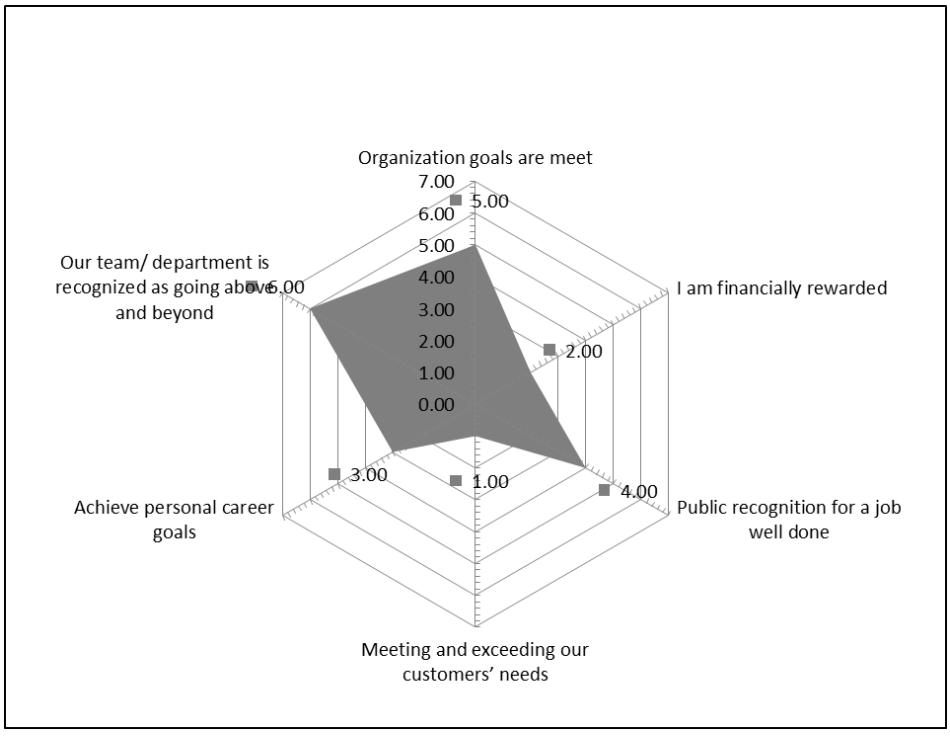

Figure 20. I am most satisfied with my job when?

Closing question – comments and suggestions. At the end of the survey participants had the opportunity to provide any comments or suggestions. From the data obtained in this section where participants had an opportunity to free form provide comments or suggestions a common theme can be identified. First, there is a lack of communication channels throughout the organization, and there is opportunity to improve communication from the top of the organization down throughout to ensure there is a common vision for the organization. Additionally, there is a sense that all team members within the organization are not treated equally and there is a lack of organizational structure established at Western Comfort. Employees within the organization are craving increased communication in regard to the organization, and how it affects the role of the employee. Additional comments and suggestions are summarized as follows:

1. The organization at this time is structured in a manner that creates walls between varying levels within the organization. Each department operates with blinders on with little understanding on how one department affects the performance of another.
2. Checks and balances need to be established. There are team members that have free reign to do as they please making decisions that affect the organization at large.
3. Team members need to be held accountable for their actions. There are team members that have poor performance and attendance at best, but due to their "knowledge" are allowed to get away with it with no disciplinary repercussions.
4. If there is a strategic plan for the future, it is not shared at all levels of the organization. Organizational performance is only known at the top level, and only shared when things are not going well.

5. Balance of resources are not properly distributed. Some team members work long days to ensure the company is successful, while others just put in their time and go home. There is a lack of organizational cohesion.
6. Sharing leads to trust.
7. This was the first time I have taken a survey like this. Taking this survey was eye opening to my perception of the organization. I feel that if this organization wants to improve that this information should be acted upon and measured on a regular basis.

Summary

Chapter four discussed the results of the financial and culture instruments that were utilized to assess the operational readiness for Western comfort to transition to an organizational model of an S-corporation with and ESOP. In chapter five the findings will be discussed, conclusions of the study will be portrayed, and recommendations for future organization improvements required to successfully transition the organization to an S-corporation with an ESOP will be made.

Chapter V: Discussion, Conclusion and Recommendation

The purpose of this study was to examine the operational readiness for Western Comfort to transition from an S-corporation with a single stock holder to an S-corporation with an ESOP. By utilizing two separate instruments to evaluate Western Comfort, results were obtained to provide insight into the financial stability and organization's cultural health to support a transition to a business model of an S-corporation with an ESOP, and thus, making the employees the owners of Western Comfort. A sample of the financial assessment can be found in Appendix C and was comprised of two sections. First, the financial instrument focused on validating that Western Comfort met the minimum qualifications to be considered for an ESOP.

The second section of the financial assessment looked at the past five fiscal year financials of Western Comfort to ensure that the organization was in a solid position to make a successful transition to an S-corporation with an ESOP structure. In addition to the financial instrument used, a second instrument was utilized to validate the organizational culture at Western Comfort. A sample of the organizational culture survey utilized can be found in Appendix E. The organizational culture survey was comprised of 75 questions covering five categories that included: engagement, business purpose, operational affinity, and ESOP. Results of the instruments can be found in Appendix H for financial, and culture survey results can be found in Appendix I. Data obtained from three instruments provided data to be utilized to provide a strategic direction for the organization as it determines its direction as the current owner and founder plans for retirement. The data obtained aided in decision making at a strategic level, allowing a non-biased evaluation of the strengths and weaknesses of the organization, and established a baseline for evaluating changes to the organization over time in the future.

Prior to the start of research for this study some limitations are identified as listed below as items one through five. Item number six was identified as a new limitation upon the completion of the data collection portion of this study.

1. Time frame given to make the determinations that Western Comfort is ready to convert to an ESOP is limited to the next fiscal year.
2. Study is specific to Western Comfort and may not be generalized with other organizational systems.
3. Data obtained during the study comes from a wide variety of sources, and assumes that this information will fit the determined model of ESOP that will be the best fit for Western Comfort.
4. The physical location of the affected employees of Western Comfort is varied. Although the organizational leadership team is centrally located, the workforce with the largest benefit and associated change are dispersed across many active jobsites within a tree hour drive radius of the Western Comfort headquarters.
5. Conversion to an S-corporation ESOP is the only business model being considered at this time. Other business models were not considered within the scope of this project.

Prior to the beginning this research information was conveyed to the researcher that organizational members of Western Comfort were aware of the desire of the organization to transition to an S-corporation to an ESOP structure. Members had been provided with ESOP education, and possess a basic understanding or comprehension of what an ESOP is, and how it affects them individually and the organization as a whole. Completion of this study revealed that most organizational members outside of the leadership team had not been made aware that the organization was exploring transitioning to an ESOP, had not been educated, and did not fully

understand how an ESOP would affect them individually. This was identified as a new limitation for this study.

Discussion

Data to support this study was obtained by current organizational members of Western Comfort at the time of this study. In total, 70 employees were asked to participate with two employees determined as being excluded from participation in the study. These two employees that were determined to be excluded were the researcher and the owner/ founder of Western Comfort.

Financial assessment summary of results. The results of the financial assessment were:

- Low levels of constancy year over year. Profit margins for the organization were always profitable but ranged from a low of 6% to a high of 25%.
- Gross revenues over the past five years have varied by 20% in an inconsistent manner taking swings of more than 15% from one year to the next.
- Low levels of correlation and consistency between gross revenue and profit margins.
- High levels of profitability, but a lack of an established organization budget is evident.

Organization culture survey summary of results. The primary and sub-categories result of the culture survey from lowest to highest were:

Primary categories rankings (low to high). The organizational culture survey identified organizational competencies across five primary categories as defined below.

1. Employee Ownership (58.2%)
2. Business Purpose (61.4%)
3. Engagement (63.8%)

4. Operational Affinity (71.4%)
5. Employee Satisfaction (79.0%)

Sub-categories rankings (low to high). By breaking down the five primary categories into their sub-categories it revealed the individual performance as listed below.

1. Strategic Planning (48.5)
2. Ownership (51.3%)
3. Competencies and Capability Development (58.5%)
4. Vision and Mission (58.9%
5. Adaptability (58.9%)
6. Communication (60.7%)
7. Entrepreneurship (61.3)
8. ESOP Education and Belief (62.0%)
9. Teamwork (74.1%)
10. Empowerment (74.1%)
11. Compensation and Rewards (74.6%)
12. Core Beliefs (76.9%)
13. Customer First (79.3%)
14. Servant Leadership (80.9%)
15. Morale (81.5%)

Graphical representation of the organizational culture survey can be found in Appendix I. Additionally, Chapter 4 identified areas of concern that included:

1. Five sub-categories that scored the lowest were strategic planning, ownership, competencies and capability development, vision and mission, and adaptability. All scoring below 60%.
2. Communication scored just above 60% with a score of 60.7%.
3. The lowest score in the ability for the organization to convey purpose in a manner that employees can understand how individual contributions affect the outcome in the work. This may be related to a lack of clearly established and documented goals and objectives tied to the mission, vision and strategic direction of the organization.
4. Within the ESOP category, the sub-category Ownership scored 51.3%. This score provides Western Comfort with an opportunity to be more transparent with financial, strategic planning and performance of the organization. By becoming more transparent it will allow employees to think and act like owners of the organization.
5. The employee engagement category scored low with two of the three sub-categories within being in the bottom five of the fifteen sub-categories and provides opportunities for future enhancement. Sub-section Competencies and Capability Development indicated there are opportunities for training. Question number one in this sub-category notes that 65% of the survey participants feel as though problems arise because skills to perform their job are lacking. Sub-section Adaptability, question number 5 on the perception of people within the organization are open and quickly adapt to change resulted in 59% of survey participants observe resistance to change.

Chapter 4 also noted that areas in the organization where the culture is strong and current levels should be maintained with opportunities for minor enhancement of these areas of

focus. Five sub-categories that scored the highest were morale, servant leadership, customer first, core beliefs and compensation and reward. All five of top scoring sub-categories final results scoring greater than 74.5%. Additional details of these five sub-categories include:

1. Morale within the organization is high with 86% of survey participants enjoy the task they currently perform, 86% see themselves with the organization in the next five years and 83% feel that the expectations for their job are clear.
2. Servant leadership scored high within the culture survey. Most employees indicated with an overall score of 90% that they have a positive relationship with their immediate supervisor. In conjunction within the same category that 83% of survey participants stating that their supervisor's daily actions reflect the values of the organization. High levels in servant leadership and the belief that management believe in enriching the lives of individuals and building better organizations.
3. High levels of customer first belief in meeting the needs and expectations of the people for whom the work is being performed with a survey score of 79.3%. Survey participants indicated with a score of 92% that the quality of their work leads to future organizational success, 90% care about what customers think about the company's offerings and services, and there is a strong belief that meeting commitments and deadlines are important to them with a score of 79%.
4. Core beliefs sub-category final results indicated with a final score of 76.9% there are solid levels of trust, values, and beliefs. 94% of survey participants believe that actions of most employees are honest and in the best interest of the organization.
5. Compensation and reward offered by Western Comfort were identified by the culture survey as being adequate and fair with a final score of 74.6% with greater than 80%

of respondents indicated raises are based on their performance at their job and employees are satisfied with their total benefits packages they are provided.

Conclusions

Due to Western Comfort's existence for more than three decades, it was proposed that the organization was financially healthy and had an organizational culture that was strong, and thus was in a good transitional position to convert from an S-corporation with a single stock owner to an S-corporation with an ESOP.

Although there were some areas identified by the financial assessment of Western Comfort that could have more strategic goal setting established, as an overall assessment of the financial health of the organization, Western Comfort is financially healthy and sound with a positive bottom line.

Regarding the organization culture, there were several areas of concern that would limit the successful transition to an S-corporation with an ESOP. Establishing and maintaining strong organizational culture requires a focus from the organization with employees at all levels having involvement. To enhance the organizational culture of Western Comfort the organization will need to commit to improving the areas that the culture has been identified as lacking through a documented and properly structured plan. This can be accomplished by establishing organizational culture improvement efforts by targeting the lowest performing areas with focused efforts outlining organizational goals and expectations for those specific areas.

Additionally, prior to this study the founder at Western Comfort identified what was believed to be the current and desired state of the organization (as noted in Introduction in Chapter I). The founder's team's vision for the future of the company included a customer focused organization where the employees flourished in a people focused organization that with

the transition from an S-corporation with a single stock owner to an S-corporation with an ESOP would continue to be a successful organization. The single change being that the owner and founder of the organization would transfer company ownership to the employees. The following recommendations will be focused on the founder's vision for the future, low scoring areas of the assessment, and will utilize information from the literature review.

Recommendations

The literature review conducted for this study revealed that culture can be an asset or liability of an organization (Denison, 1990). In order to work towards improving the organizational culture at Western Comfort and ensure that culture is truly treated as an asset, the following recommendations are proposed to ensure that if an organizational transition to an S-corporation with an ESOP structure is still the desired direction upon the conclusion of this study.

People focused organization. To make the desired transition to an S-corporation with an ESOP structure Western Comfort should continue to invest in their people. A well-developed people focused culture should be a primary goal of the organization to break down barriers between management and the workforce. A true competitive advantage can be established when individuals are provided with the opportunities to express their individual freedoms, and employees feel that their actions contribute to making a positive difference within the organization (Weymes, 2005, p. 152).

A successful ESOP can be established when the organization has embedded a belief that encourages creating a sense of purpose, to eliminate reservations, tear down inter-organizational barriers, and educate with the intent of instilling trust throughout the organization (Black & La Venture, 2015). To achieve this outcome, the executive leadership of Western Comfort should

establish, document and share the core values of Western Comfort at all levels within the organization. By doing so, it will also create the ability to reinforce how these core values tie to the mission and vision of the organization operated and interacts both internally and externally. Defining the path to establishing the desired outcome of transitioning to an S-corporation with an ESOP structure.

High performing organization. Becoming a HPO should be a main focal point and reason for establishing an ESOP as Western Comfort's goal for the future success and growth of the organization. As identified by Black & La Venture (2015) a HPO is defined as "an organization that embodies people-first values, creates a strong and positive culture of trust amongst its people, and thus sustains a high level of profitability" (p. 38). Employee-owned organizations have demonstrated the ability to be deemed HPO's. Within strong employee-owned organization, employees shared a common belief in ownership. The belief that they have a voice in organizational direction, and that pride and satisfaction came from shared goals and trust within the organization. People-first cultures are at the core of any HPO. Organizational leadership, business strategies and human resource strategies of the organization have alignment to create a culture within the organization in which people come first (Black & La Venture, 2015).

Strategic plan. In an effort to have a successful financial future as an S-corporation with an ESOP structure Western Comfort must develop a strategic plan. Once a strategic plan has been established, Western Comfort needs to ensure that every member of the organization receives a copy of the organizations strategic plan. The strategic plan should be formulated in such a manner that it can be communicated in writing incorporating a defined process. Individual goals and objective for employees of Western Comfort must be tied to the goals and objectives

load out in the strategic plan. Allowing each member of the organization to receive a copy of the strategic plan for review will create context, appreciation and create a sense of involvement (Denison, 2017). Aligning individual employee goals to the strategic plan will establish with each employee a sense of purpose and meaning to the organization and its success. Employees goals should be based on SMART goals (specific, measurable, acceptable, realistic and have a set timeframe) that are currently related to the strategic plan and have financial incentive tied to the completion of each goal. In order to have a successful outcome, the goals should be set high, yet attainable and the financial incentive should be substantial to enhance motivation for achievement (Weymes, 2005).

Quarterly company meetings. The cultural survey data indicated that Western Comfort has a need to improve in both areas of ownership and communications. In reference to change, the literature review stated that changing culture is the act of shaping beliefs, assumptions, values, patterns of behavior, changing mindsets and coming to new ways of thinking and acting (Schein, 1992). As discussed in chapter two Hathaway (2000) noted that most individuals are subconsciously resistant to change, as it can lead to the introduction of feeling of fear, often leading to resistance.

In an effort to increase the effectiveness of change management, the review of literature illustrated that one must create a desire to change through awareness of the need for change (Hathaway, 2000). Additionally, one of the strategies noted was enhancing management dialogue sessions amongst other managers, supervisors and employees at all levels of the organization to establish this awareness.

With this understanding, it is recommended that Western Comfort establish and hold quarterly organizational meetings with employees to create ownership and dialog within the

organization. This will foster an understanding of the need for change and allow employees at all levels to engage in conversations about ideas, fears and concerns facing the organization. These meeting should be led by the President of Western Comfort and include other organizational leaders from other functional areas within the organization, to allow employees to have dialog in small groups.

The establishment of quarterly meeting will also assist with improving employee's level of ownership within the organization by opening up the table to questions and concerns that employees have. Meetings will utilize aspects to develop ownership such as participation, capability development, active listening and leadership. Recommendations for a proposed agenda format are as follows:

1. Provide information on financial and strategic planning performance against the established fiscal year plan, along with back log and forecasting data that is available.
2. Present case studies or stories of other organizations that are ESOP and the impact of the response to change have had on organizational health and organizational resiliency.
3. Discuss current opportunities or threats facing the organization.
4. Share positive news on the organization since the last meeting.
5. Obtain feedback on current and/or proposed changes within the organization.

In conjunction with quarterly meetings, monthly meetings should be held with each department to keep communication and trust levels high. These meetings should be held regularly to facilitate communication in regard to:

1. Department goal performance and counter measures if required.

2. Communicate changes, frustrations and ideas that may affect the performance or micro culture within the department.
3. Collaboration and problem solving within departments and across departments in the organization.

Adaptability, competency, and capability development. The mechanical trade is continuously changing and evolving. Ensuring that the workforce within Western Comfort has the skills an ability to grow will also ensure employees will have the ability to adapt to changing conditions with each new project in the organization. Investing in continuous education opportunities would demonstrate the organization's commitment in the development of employee skill base that would create competitive advantage and diversify the organization's ability to meet evolving organizational needs. Creating adaptive ways to achieve success in challenging business environment conditions quickly, with the ability to react timely and anticipate future needs creates organizational resiliency (Black and La Venture, 2015).

Opportunities for future study. With the goal of Western Comfort to obtain continued operational achievement with their goals of becoming an S-corporation with an ESOP will include some if not all of the following:

1. Perform an organizational culture assessment on a yearly basis to continue to track progress of the organizations culture based on the performance and perception of past years. Utilizing the same instrument utilized as part of this study is recommended to be used for consistency purposes for ongoing assessment of the culture.
2. Special attention will need to be placed on monitoring elements from this study where Western Comfort's performance was limited. This will increase the credibility of the process as Western Comfort employee's would be aware and believe in improving the

organization's culture. Information could be presented through the use of a dashboard and key performance indicators that depict a clear representation of the current state of the element where improvement is needed.

3. Establish a goal to improve organizational performance in the areas of financial stability and growth along with organizational culture improvements by a predetermined obtainable level such as 10% to be achieved by a given date. Utilize the survey in the same format to use it as a benchmark to measure organizational performance against on an annual basis.
4. Implementation of focus groups to facilitate change in specific areas identified for financial or cultural improvement. By establishing focus groups, it will facilitate creating opportunities on multiple fronts within the organization. One, such activity will develop transparency and create ownership within the organization. Two, expanding the capabilities and adaptability through better understanding of different work groups will increase knowledge sharing, work experiences, and individual perceptions. Three, such a process would enhance communication and teamwork throughout the organization both for individual and organizational growth.
5. In future years make the organization culture survey as part of one of the organization's quarterly meetings. This will increase the level of participation and discourage employees from having discussion on how they answer specific questions. The results of subsequent surveys should be published as part of the organizations dashboard, and these results should be communicated and shared at all levels of the organization.

6. Utilize members of both the leadership team and employee workforce to research, establish, document and share the core values to the organization. Ensure these values are aligned with the vision and mission of Western Comfort for transitioning to an S-corporation with an ESOP structure.

Assessment of transitional readiness. Upon the conclusion of this study Western Comfort met the financial requirements to transition to an ESOP, but has opportunity for improving the overall culture of the organization. For Western comfort to become a successful ESOP organization it must focus on establishing a strategic plan and share the mission and vision for the future at all levels of the organization. With the first step in this process being the establishment, documentation and education of the core values of Western Comfort.

The assessment performed as part of this study indicated financially that the organization is healthy. Opportunity exists to enhance the desired financial performance and financial growth at Western Comfort by formally documenting an annual financial strategy and measuring performance through key performance indicators and communicated through a dashboard tool.

Culturally, employees within the organization exhibit high value in a customer first focus, but do not think of themselves as owners. Being a successful ESOP, employees need to have knowledge, understanding and a belief that ownership is of value to them. If there is not shared understanding across the entire organization of the value of an ESOP for Western Comfort the future owners (employees). Establishing a project team to research, develop, educate and promote the benefits of ownership and the entrepreneurship spirit within all levels might be an initial step to leverage the value of ownership and an ESOP at Western Comfort.

Summary of the study. Chapter I outlined the problem, purpose, assumptions, limitations, and the methodology of how this study would be conducted. Chapter II provided a

review of literature relevant to obtaining the desire outcome of this study. Chapter III established the methodology the study would follow from subject selection, instrumentation, data collection procedures, data analysis, and limitations to obtain results affecting the outcome of the study. Chapter IV provided a review of the results obtained by following the methodology as outlined in Chapter III. Chapter V provided a discussion of the findings, conclusions, and recommendations regarding Western Comfort's readiness to transition from an S-corporation with a single stock owner to an S-corporation with an ESOP structure.

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Appendix A: Invitation & Permission to Conduct Survey

Date: June 7, 2017
Suzanne Roberts
General Manager/Secretary-Treasurer
Modern Air Mechanical

2200 Cooper Ave. Merced CA, 95348

RE: Permission to Conduct Research Study

Dear Suzanne Roberts:

I am writing to request permission to conduct a research study at your organization. I am currently enrolled in the Operations and Supply Chain Management Master's Program with the University of Wisconsin-Stout in Menomonie, WI, and in the process of writing my Master's Plan B. The study is entitled "Western Comfort ESOP Transitional Readiness".

I hope that the organizational leadership will allow me to have access to all employees within the organization to anonymously complete an organizational culture survey (copy enclosed).

If approval is granted, employee participants will complete the survey during their normal scheduled work hours. The survey process should take no longer than 15-20 minutes of commitment by individual participants. The survey results will be tabulated for the thesis project and individual results of this study will remain absolutely confidential and anonymous. Should this study be published, only pooled results will be documented. No costs will be incurred by either your organization or the individual participants.

Your approval to conduct this study will be greatly appreciated. I will follow up with a meeting request and would be happy to answer any questions or concerns that you may have at that time. You may contact me at my email address: scheidtm2002@my.uwstout.edu.

If you grant permission, kindly sign below and return the signed form in the enclosed self-addressed envelope. Alternatively, kindly submit a signed letter of permission on your institution's letterhead acknowledging your consent and permission for me to conduct this survey/study at your place of operation.

Respectfully,

Marc Scheidt

Enclosures

cc: Dr. Jeanette Black, Research Advisor, University of Wisconsin-Stout

Approved by:

Suzanne Roberts	_____	_____
Print your name and title here	Signature	Date

2200 Cooper Avenue
P.O. Box 3017
Merced, CA 95344

Phone (209) 722-1815
Fax (209) 722-4718
www.ModernAir.biz

June 15, 2017

Dear Mr. Scheidt,

I understand that you are working on your Master's Program thesis and are looking for survey data to incorporate into your study. The survey should be brief so that it only requires 15 minutes to complete. We will authorize our personnel the time needed to participate during their regular shift, and will assist you with its distribution.

I'm happy to grant permission for you to conduct your survey with our employees, and will write a cover memo when you are ready to distribute it. Should you have questions or need further assistance, please contact me at your earliest opportunity.

Sincerely,

[redacted]

Suzanne Roberts
General Manager

cc: Dr. Jeanette Black, Research Advisor, University of Wisconsin-Stout

"We Autograph Our Work with Quality!"

Appendix B: Informed Consent Form – Financial Assessment

UW-Stout Signed Consent Form
for Research Involving Human Subjects

Consent to Participate in UW-Stout Approved Research:

Title: Western Comfort ESOP Transition Readiness

Investigator:
Marc Scheidt, Graduate Student
(559) 737-3570
scheidtm2002@my.uwstout.edu

Research Sponsor:
Dr. Jeanette Black,
UW Stout
242 Jarvis Tech Wing,
Menomonie, WI 54751,
(715) 232-5229
blackj@uwstout.edu

Description:

As part of my final requirements of my graduate work in Operations and Supply Chain Management through University of Wisconsin-Stout, I am conducting an employee-owned transitional readiness assessment of your company. Part of this study will include an organization financial health assessment that will be the company's finance department.

Within this assessment you will be asked questions related to financial data over the past five fiscal years. As this type of assessment is a first for your company, this will provide a baseline to benchmark future development for the organization.

Your genuine input on this assessment is of the upmost importance, not solely for the completion of my graduate program, but to the organization as it strives to improve in the addressed areas within this assessment.

Risks and Benefits:

Individual participant risks for completing this assessment are minimal to non-existent, as all information can be obtained from company income statements, and permission to obtain this information has been granted to the researcher by the company.

Benefits to individual participant will be minimal. It is the intention of this assessment to understand the financial health within the organization as a whole related to organization transition readiness from an S-corporation to an employee-owned organization as part of the founder's succession planning.

Time Commitment and Payment:

Survey completion should take a participant approximately 30 minutes to complete. However, should additional time be required to complete, participant will be granted additional time to ensure adequate completion can be achieved. Participant will be allowed to complete assessment during their normal scheduled shift, and will not be compensated above their normal hourly rate for their participation.

Confidentiality:

Your name will not be included on any documents. We do not believe that you can be identified from any of this information. This informed consent will not be kept with any of the other documents completed with this project.

Right to Withdraw:

Your participation in this study is entirely voluntary. You may choose not to participate without any adverse consequences to you. Should you choose to participate and later wish to withdraw from the study, you may discontinue your participation at this time without incurring adverse consequences.

IRB Approval:

This study has been reviewed and approved by The University of Wisconsin-Stout's Institutional Review Board (IRB). The IRB has determined that this study meets the ethical obligations

required by federal law and University policies. If you have questions or concerns regarding this study, please contact the Investigator or Advisor. If you have any questions, concerns, or reports regarding your rights as a research subject, please contact the IRB Administrator.

Investigator: Marc Scheidt, Graduate Student
(559) 737-3570,
scheidtm2002@my.uwstout.edu

Advisor: Dr. Jeanette Black,
(715) 232-5229, blackj@uwstout.edu

IRB Administrator
Elizabeth Buchanan, Research Services
152 Vocational Rehabilitation Bldg.
UW-Stout
Menomonie, WI 54751
715.232.2477
irb@uwstout.edu

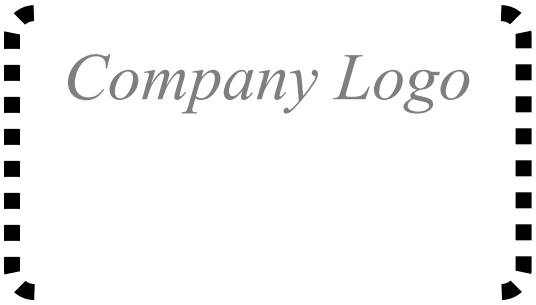
Statement of Consent:

By signing this consent form you agree to participate in the project entitled, Western Comfort ESOP Transition Readiness.

_____

Signature Date

Appendix C: Financial Assessment Instruments



Company Name

Organization Financial Assessment

Consent for Research:

I understand that by signing the attached consent form and returning this survey completed, I am providing the researcher my authorization to utilize my information as a participating volunteer in this study. I understand the nature of this study and agree that any potential risks to me are minimal. I also understand the potential benefits that might be realized from the successful completion of this study. I am aware that the information being sought in a specific manner so that minimal identifiers are necessary and so that my confidentiality is guaranteed. I realize that I have the right to refuse my participation and that my right to withdraw from participation at any time during the course of this study will be respected without recourse.

Note: Questions or concerns about the research study should be addressed to Marc Scheidt, the researcher, by phone (559) 737-3570, email scheidtm2002@my.uwstout.edu or Dr. Jeanette Black, the research advisor, UW-Stout 242 Jarvis Tech Wing, Menomonie, WI 54751, phone (715) 232-5229. Questions about the rights of research can be addressed to Elizabeth Buchanan, Institutional Review Board (IRB) Administrator, UW-Stout Institutional Review Board for the Protection of Human Subject in Research, 152 Vocational Rehabilitation Bldg., Menomonie, WI 54751, phone (715) 232-2477

****

Thank you for your participation in this organizational financial assessment. Our objective is to assess the organization's financial health and identify opportunities for improvement in the future. The data provided is important to the strategic direction of the organization. Your information will remain anonymous, so we encourage you to answer with complete honesty.

Instructions:

Use a pen or pencil to populate the financial assessment with accurate data from the given time periods requested. Most data should be gathered from the organizations end of fiscal year Income Statements.

Assessment is required to be completed by [*Day*], [*Month*] [*Day*], [*Year*]

****

ESOP Minimum Qualifications:

Instructions:

Complete the following checklist by filling in the mark [ ] with either an answer of **Yes** or **No** to question to the right. Your answers will assist in determining if your organization meets the minimum qualifications to consider establishing and ESOP.

Yes	**No**	**Question:**
		Does one or more major shareholder desire to sell all or part of their company shares now or over the next five years?
		Does your company have greater than $1 million in revenues?
		Does your company have more than 10 employees?
		Is your company profitable?

		Are your normalized pretax earnings greater than $200,000?
		Is your company a corporation (either S or C)?
		Is your business in any industry other than professional services (doctors, dentists, lawyers)?

5 Year Income Assessment:

Instructions:

Complete the following matrix by filling in the requested data from the organizations past 5 fiscal year Income Statements. Your answers will assist in determining if your organization financial health and stability score.

Financial ← Data	Fiscal Years →	2012	2013	2014	2015	2016
	Gross Revenue	$_____	$_____	$_____	$_____	$_____
	Costs of Goods Sold	$_____	$_____	$_____	$_____	$_____
	Operating Expenses	$_____	$_____	$_____	$_____	$_____
	Gross Profit	$_____	$_____	$_____	$_____	$_____
	Profit Margin	_____%	_____%	_____%	_____%	_____%

Additional Comments/Clarifications:

Your time and effort are truly appreciated for taking the time to complete this organization financial assessment. Your input and support is valued and will be utilized to support future strategic planning within your organization.

Please return your completed assessment to the researcher upon completion.

Appendix D: Informed Consent Form – Culture Survey

UW-Stout Signed Consent Form

for Research Involving Human Subjects

Consent to Participate In UW-Stout Approved Research:

Title: Western Comfort ESOP Transition Readiness

Investigator:
Marc Scheidt, Graduate Student
(559) 737-3570
scheidtm2002@my.uwstout.edu

Research Sponsor:
Dr. Jeanette Black,
UW Stout,
242 Jarvis Tech Wing,
Menomonie, WI 54751,
(715) 232-5229
blackj@uwstout.edu

Description:

As part of my final requirements of my graduate work in Operations and Supply Chain Management through University of Wisconsin-Stout, I am conducting an employee-owned transitional readiness assessment of your company. Part of this study will include an organization culture survey that will be distributed to all employees.

Within this survey you will be asked questions related to **employee engagement, business purpose, operational affinity, employee satisfaction and employee-ownership**. As this type of survey is a first for your company, this will provide you with an opportunity to provide feedback and establish a baseline to foster future organizational development. All information provided will be kept strictly confidential and any research findings will not contain any participant identifiers.

Your genuine input on this survey is of upmost importance, not solely for the completion of my graduate program, but to the organization as it strives to improve in the addressed areas within this survey.

Risks and Benefits:

Individual participant risks for completing this survey are minimal to non-existent, as all information will be kept strictly confidential and all research findings will not contain any participant identifiers.

Benefits to individual participant will be minimal. It is the intention of this study to understand and enhance the overall culture within the organization for the greater good by providing a baseline and develop a defined path forward to improve the addressed area within this study. Providing an aligned synergy for future organizational developments.

Time Commitment and Payment:

Survey completion should take a participant approximately 15 minutes to complete. However, should additional time be required to complete, participant will be granted additional time to ensure adequate completion can be achieved. Participant will be allowed to complete survey during their normal scheduled shift, and will not be compensated above their normal hourly rate for their participation.

Confidentiality:

Your name will not be included on any documents. We do not believe that you can be identified from any of this information. This informed consent will not be kept with any of the other documents completed with this project”

Right to Withdraw:

Your participation in this study is entirely voluntary. You may choose not to participate without any adverse consequences to you. Should you choose to participate and later wish to withdraw from the study, you may discontinue your participation at this time without incurring adverse consequences.

IRB Approval:

This study has been reviewed and approved by The University of Wisconsin-Stout's Institutional Review Board (IRB). The IRB has determined that this study meets the ethical obligations required by federal law and University policies. If you have questions or concerns regarding this study please contact the Investigator or Advisor. If you have any questions, concerns, or reports regarding your rights as a research subject, please contact the IRB Administrator.

Investigator: Marc Scheidt,
(559) 737-3570,
scheidtm2002@my.uwstout.edu

Advisor: Dr. Jeanette Black,
(715) 232-5229, blackj@uwstout.edu

IRB Administrator
Elizabeth Buchanan, Research Services
152 Vocational Rehabilitation Bldg.
UW-Stout
Menomonie, WI 54751
715.232.2477
irb@uwstout.edu

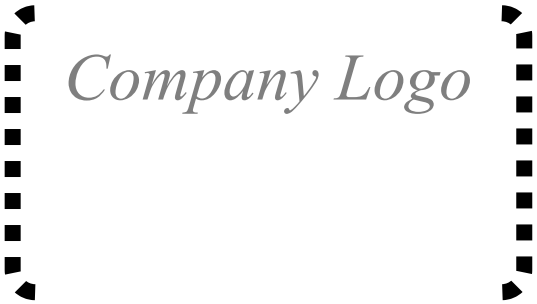
Statement of Consent:

By signing this consent form you agree to participate in the project entitled, Western Comfort ESOP Transition Readiness.

_____

Signature Date

Appendix E: Financial Assessment Instruments



Company Name

Organization Culture Survey

Consent for Research:

I understand that by signing the attached consent form and returning this survey completed, I am providing the researcher my authorization utilize my information as a participating volunteer in this study. I understand the nature of this study and agree that any potential risks to me are minimal. I also understand the potential benefits that might be realized from the successful completion of this study. I am aware that the information being sought in a specific manner so that minimal identifiers are necessary and so that my confidentiality is guaranteed. I realize that I have the right to refuse my participation and that my right to withdraw from participation at any time during the course of this study will be respected without recourse.

Note: Questions or concerns about the research study should be addressed to Marc Scheidt, the researcher, by phone (559) 737-3570, email scheidtm2002@my.uwstout.edu or Dr. Jeanette Black, the research advisor, UW-Stout, 242 Jarvis Tech Wing, Menomonie, WI 54751, phone (715) 232-5229. Questions about the rights of research can be addressed to Elizabeth Buchanan, Institutional Review Board (IRB) Administrator, UW-Stout Institutional Review Board for the Protection of Human Subject in Research, 152 Vocational Rehabilitation Bldg., Menomonie, WI 54751, phone (715) 232-2477

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Thank you for your participation in this organizational culture survey. Our objective is to assess the organization's strengths and identify opportunities for improvement in the future. Your thoughts and feelings are important to the ongoing success of the organization. Your responses will remain anonymous, so we encourage you to answer with complete honesty.

Instructions:

Use a pen or pencil to complete the survey. Most surveys will be answered by filling in or circling one of the numbers displayed like this in a row.

If you strongly **agree** with the statement, circle or fill one number towards the ***left*** of the scale.

If you strongly **disagree** with the statement, circle or fill one number towards the ***Right*** of the scale.

All surveys are required to be completed by [*Day*], [*Month*] [*Day*], [*Year*]

To ensure participant confidentiality, please place completed survey in the [*Designated Area*]

****

Which one of the following best describes your position?					
	Operations		**Administration**		**Management**
	Includes: -Service Techs -Field Installers -Shop Fabrication -Materials Management		**Includes:** -Accounting -Dispatching -Contacts Admin. -Office staff		**Includes:** -Office Manager -Service Manager -Project Manager -Field Superintendent

Years of Service:	
___	0-3 years
___	4-8 years
___	9-15 years
___	16 years or more

I A. Empowerment	Strongly Agree	Agree	Disagree	Strongly Disagree
1. I believe that I can positively contribute to the organizations success……	①	②	③	④
2. I can make my decisions on the job without fear of judgement……..	①	②	③	④
3. I hold myself accountable for my own work……	①	②	③	④
4. I have the ability to take measurable risks without direction……...	①	②	③	④
5. Other organizational members rely on me for my judgement……..	①	②	③	④
I B. Competencies & Capability Development	Strongly Agree	Agree	Disagree	Strongly Disagree
1. Problems arise because skills to perform our job are lacking…….….	①	②	③	④
2. Necessary training is provided in order to perform my job well……..	①	②	③	④
3. Opportunities exist to develop my job related skills……	①	②	③	④
4. My role within the organization utilizes my skills and abilities well…….	①	②	③	④
5. I am provided the tools and equipment to perform at a high level ……..	①	②	③	④
I C. Adaptability	Strongly Agree	Agree	Disagree	Strongly Disagree
1. In the past when I have made recommendations, they have led to change	①	②	③	④
2. Attempts to create change are usually meet with resistance……	①	②	③	④
3. I am shown respect for identifying improvements……..	①	②	③	④
4. My immediate work group has a need for improvement……	①	②	③	④
5. People in the organization are open and quickly adapt to change……	①	②	③	④

II A. Strategic Planning	Strongly Agree	Agree	Disagree	Strongly Disagree
1. The organizations strategic plan is clear to me……	①	②	③	④
2. My goals are aligned with the goals of the organization……..	①	②	③	④
3. I support the organizations strategic plan…….	①	②	③	④
4. We routinely measure performance against the strategic plan……	①	②	③	④
5. I have a voice in establishing the goals & objectives of the strategic plan..	①	②	③	④
II B. Core Beliefs	Strongly Agree	Agree	Disagree	Strongly Disagree
1. There are clear and consistent set of values to how we do business ……....	①	②	③	④
2. People within our organization truly respect each other…….....	①	②	③	④
3. Trust in held in high regard among all employees within the organization.	①	②	③	④
4. Values and beliefs in our organization promote quality of work……	①	②	③	④
5. Actions conducted by most employees are honest……..	①	②	③	④
II C. Vision & Mission	Strongly Agree	Agree	Disagree	Strongly Disagree
1. There is a shared vision of what the organization will be like in the future	①	②	③	④
2. Our organizations vision for the future is reasonably attainable……..	①	②	③	④
3. Our vision & mission creates excitement and motivates employees……..	①	②	③	④
4. I make decisions based on the organizations mission & vision……..	①	②	③	④
5. I understand my role in the organization relates to its mission & vision….	①	②	③	④

III A. Customer First (Internal and External)	Strongly Agree	Agree	Disagree	Strongly Disagree
1. Comments and recommendations often lead to changes……..	1	2	3	4
2. I care about what customers think about our products/ services……..	1	2	3	4
3. I believe that my quality of work leads to future organizational success….	1	2	3	4
4. Meeting commitments and deadlines is important to me…..……..	1	2	3	4
5. There is a sense of urgency to deliver quality products/service timely……	1	2	3	4
III B. Communication	Strongly Agree	Agree	Disagree	Strongly Disagree
1. People communicate well across departments within the organization…..	1	2	3	4
2. I openly share my ideas, fears, and concerns within the organization…….	1	2	3	4
3. The organizations expectations are communicated to me clearly……				
4. Knowledge is shared openly to improve the overall team performance…..	1	2	3	4
5. Conflict is confronted directly to settle rather than avoid/ignore problems.	1	2	3	4
III C. Teamwork	Strongly Agree	Agree	Disagree	Strongly Disagree
1. I regularly participate as a member of a team……..	1	2	3	4
2. Working as a team, rather than individually generates better results…….	1	2	3	4
3. Differences of opinions are accepted and still commit to work together….	1	2	3	4
4. I dislike working in teams because others are not held accountable……	1	2	3	4
5. When teams are formed, I feel empowered to make decisions…….	1	2	3	4
IV A. Compensation & Rewards	Strongly Agree	Agree	Disagree	Strongly Disagree
1. Raises are based on how well I perform at my job……..				
2. My job provides/ or can provide growth opportunities……	1	2	3	4
3. My current compensations for my role within the organization is fair……	1	2	3	4
4. I am rewarded for a job well done……	1	2	3	4
5. I am satisfied with my total benefits package provided…….……..	1	2	3	4
IV B. Morale	Strongly Agree	Agree	Disagree	Strongly Disagree
1. I have the tools available to manage the pressure related to my job well…	1	2	3	4
2. I enjoy the tasks that I perform related to my job……	1	2	3	4
3. The expectations for my job are clear……..	1	2	3	4
4. I believe that I have long-term job security by performing my job well…..	1	2	3	4
5. 5 years from now, I see myself with this organization …….	1	2	3	4
IV C. Servant Leadership	Strongly Agree	Agree	Disagree	Strongly Disagree
1. My supervisor's daily actions reflect the values of the organization……..	1	2	3	4
2. My supervisor follows through on his/her commitments to me regularly...	1	2	3	4
3. My immediate supervisor has a clear understanding of my abilities……....	1	2	3	4
4. I have a positive relationship with my immediate supervisor……..	1	2	3	4
5. My supervisor has realistic expectations and development goals for me…	1	2	3	4

V A. ESOP Education & Belief	Strongly Agree	Agree	Disagree	Strongly Disagree
1. Management at our company believes in employee ownership……..	1	2	3	4
2. Non-Management at our company believes in employee ownership……..	1	2	3	4
3. The ESOP employee ownership plan is clear to me……..	1	2	3	4
4. Rules for vesting/ distribution regarding ESOP are fair to all employees...	1	2	3	4
5. The company makes it easy to find answers regarding ESOP ……	1	2	3	4
V B. Ownership	Strongly Agree	Agree	Disagree	Strongly Disagree
1. Employee ownership is important to me……..	1	2	3	4
2. I feel like an owner of this company……	1	2	3	4
3. I understand how my performance affects company performance……..	1	2	3	4
4. Employee ownership provides me with a higher sense of pride in my job..				
5. Employee ownership provides long-term security ……..				
V C. Entrepreneurship	Strongly Agree	Agree	Disagree	Strongly Disagree
1. Our Company shares key performance data with all employees…….	1	2	3	4
2. I understand the information that is shared with me about the business…..	1	2	3	4
3. I understand how the company's performance affects value of ESOP……	1	2	3	4
4. There are opportunities for me to share my ideas for improvements……..	1	2	3	4
5. The Company encourages employees to act like owners……	1	2	3	4

What type of compensation is most important to you?			
(Rank the following in order of importance with a score High / Medium / Low)			
Rank	**Type**	**Rank**	**Type**
	Wage/ Salary		Company Functions (parties, picnics, etc…)
	Vacation		Program to help balance home and work (Child care, flextime, etc…)
	Holidays		Health Insurance
	401 K Plan		Dental Insurance
	Long Term Disability		Life Insurance
	Educational Assistance		Other (please specify):_____

I am most satisfied with my job when?	
(Rank the following in order of importance with a number 1 – most important, 7 = least important)	
Rank	**Type**
	Organization goals are meet
	I am financially rewarded
	Public recognition for a job well done
	Meeting and exceeding our customers' needs
	Achieve personal career goals
	Our team/ department is recognized as going above and beyond
	Other (please specify):_____

Additional Comments/Suggestions:

Your time and effort are truly appreciated for taking the time to complete this organizational culture survey. Your input and support is valued and will be taken into consideration. As promised, your anonymity is guaranteed.

Please place your completed survey in the drop box located [*Specific Location*]

Appendix F: Definitions of Categories and Sub-Categories of Culture Survey

I. Engagement
Developing human capability, ownership, and responsibility
A. Empowerment
• Drive, capability and authority to manage one's own work. Develops a sense of responsibility and ownership towards the organization.
B. Competency and Capability Development
• Individual trade related knowledge and demonstrated skills. How the organization demonstrates its commitment in the development of employee's skills in an effort to obtain a competitive advantage and meet evolving organizational needs
C. Adaptability
• Employee's response to accepting change within the organization. Creates adaptive ways to achieve challenging needs and ability to access the business environment conditions quickly, with the ability to react timely and anticipate future needs.

II. Business Purpose
Establishing a meaningful, long range direction for the organization
A. Strategic Planning
• Established strategic intentions to convey the organization's purpose, communicated in a concise manner that everyone can understand how their contributions affect the outcome in their work. Clearly established goals and objectives that can be tied to the mission, vision, and strategy.

B. Core Beliefs
• Employees within the organization share a common set of values which establishes an identity and clear expectations.
C. Vision and Mission
• Organization has a shared outcome of the desired future state. It embodies core values and embraces the hearts and minds of all within the organization, while providing guidance and instruction.

III. <u>Operational Affinity</u>
Establishing the values and systems that are the foundation for a strong culture.
A. Customer First
• Meeting the needs and expectations of the person(s) for who work is being performed. Including the ability to understand and react to customers, and anticipate future requirements. It reflects the magnitude to which the organization is driven by a concern to satisfy the customer.
B. Communication
• Cross-functional divisions and business units within the organization are capable of working together to achieve common objectives. Boundaries within the organization do not interfere with ability to successfully complete objectives.
C. Teamwork
• Ability for an individual to work as a member of a team.

IV. Employee Satisfaction
Creating an environment that is people-focused.
A. Compensation and Rewards
• Compensation including the employee's gross pay rate, incentives, and benefit programs. Rewards and recognition are shared with employees of warrant.
B. Morale
• Morale is how the employee feels about themselves and the company while on the job.
C. Servant Leadership
• Set of practices that enriches the lives of individuals, and builds better organizations.

V. Employee Ownership
Establishing an environment for a strong employee-owned organization.
A. Education & Belief
• Education has been provided and there is a clear understanding of what it is meant by being classified as an employee-owned organization, along with the rules and benefits associated to each "owner".
B. Ownership
• Ownership is the act, state, or right of possessing something
C. Entrepreneurship
• A gift that inspires others to become the best they can be. From passion and positivity to empowerment and ambition.

Appendix G: Pre-Survey Letter to Employee Home

[Employee Name]

[Employee Address][City], [State] [Zip Code]

Dear Western Comfort Team Member,

As I near the conclusion of my graduate studies in through University of Wisconsin-Stout, I will be working with [Company Name] to conduct an organizational Culture Survey. The study will consist of a survey that will be provided to all Team Members that make up [Company Name].

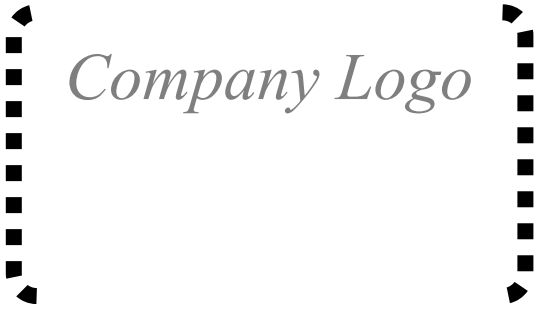
In the survey, it will ask questions related to **employee satisfaction, engagement, business purpose, and operational affinity** that you have at [Company Name]. This will provide Team Members with an opportunity to provide feedback to foster future organization development. All information obtained as part of this survey will be kept strictly confidential and any reports of the findings obtained as part of this research will not include any information that can be linked back to an individual Team Member.

Your genuine input on the survey is extremely important, not only to support the completion of my graduate studies, but to [Company Name] as it strives to improve the organizational culture in areas addressed. I truly appreciate your support in completing this survey by [Month] [Day], [Year]. Should you have any questions prior to taking the survey feel free to address them to me at the contact information provided at the end of this letter.

This is your opportunity to share your voice – CONFIDENTIALLY!

Respectfully,
Marc Scheidt
Graduate Student
University of Wisconsin-Stout
Email: [Email Address] Phone: [Phone Number]

Appendix H: Financial Results



Organization Financial Assessment

Results for Western Comfort

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Assessment completed by Friday, August 8th, 2017

****

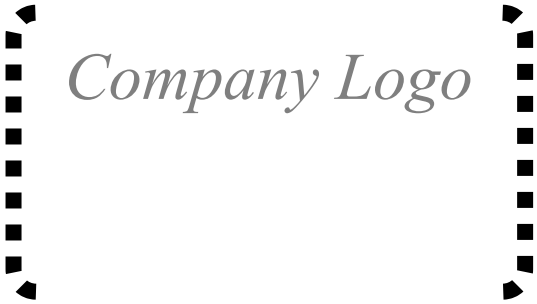
ESOP Minimum Qualifications:

Yes	No	Question:
√		Does one or more major shareholder desire to sell all or part of their company shares now or over the next five years?
√		Does your company have greater than $1 million in revenues?
√		Does your company have more than 10 employees?
√		Is your company profitable?
√		Are your normalized pretax earnings greater than $200,000?
√		Is your company a corporation (either S or C)?
√		Is your business in any industry other than professional services (doctors, dentists, lawyers)?

5 Year Income Assessment:

Fiscal Years					
	2012	2013	2014	2015	2016
Gross Revenue	$14.93M	$17.06M	$16.84M	$17.14M	$14.34M
Costs of Goods Sold	$10.70M	$12.12M	$10.76M	$12.31M	$11.76M
Operating Expenses	$2.32M	$2.27M	$1.92M	$1.84M	$1.69M
Gross Profit	$1.90M	$2.68M	$4.16M	$2.99M	$0.92M
Profit Margin	13%	16%	25%	17%	6%

Appendix I: Culture Survey Results

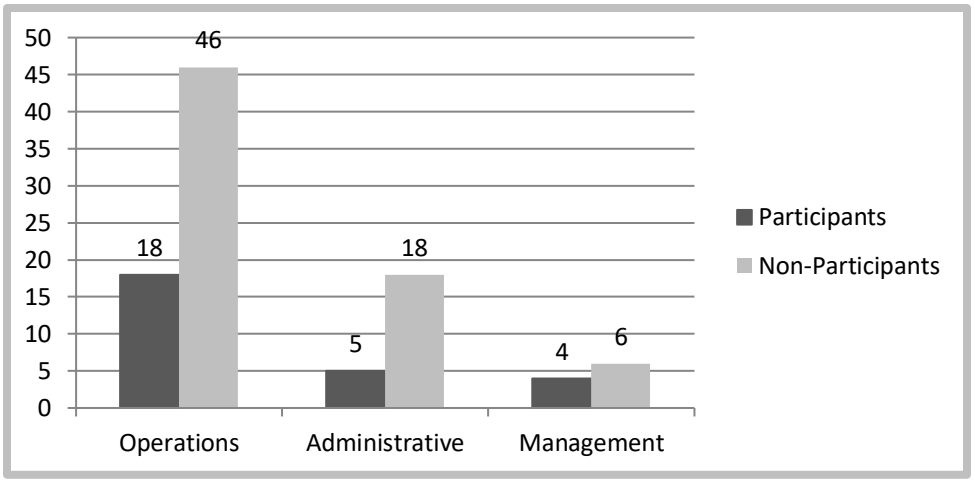


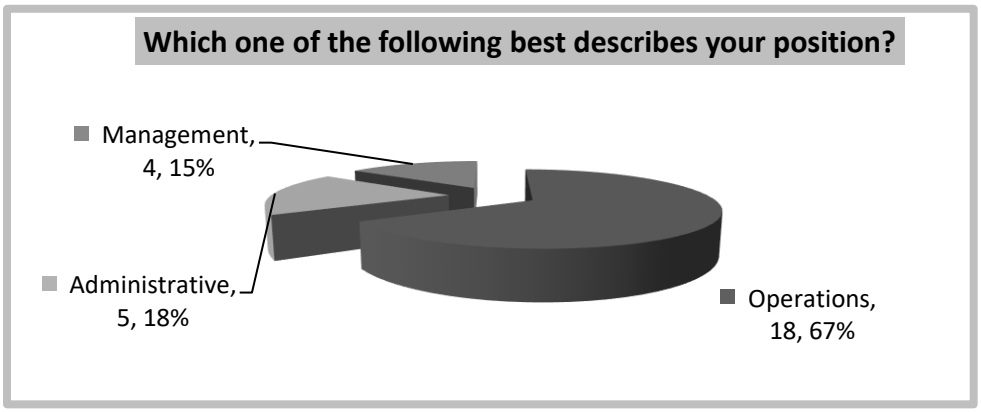
Company Name

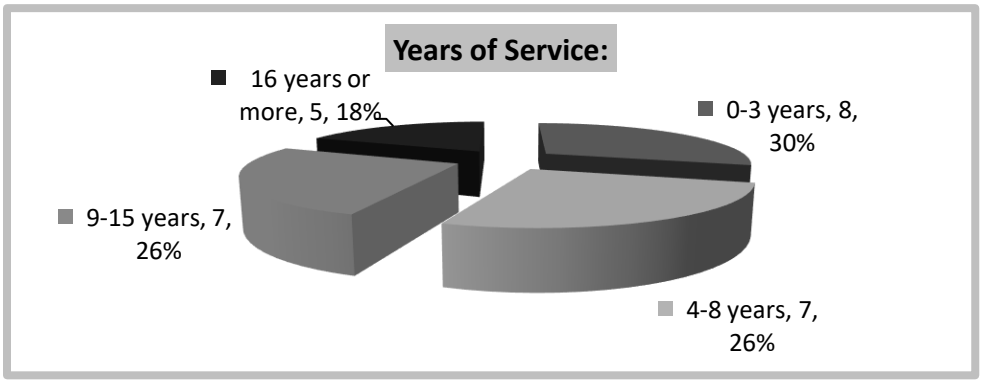
Organization Culture Survey

Results

Total Survey Response Rate & Demographic Information

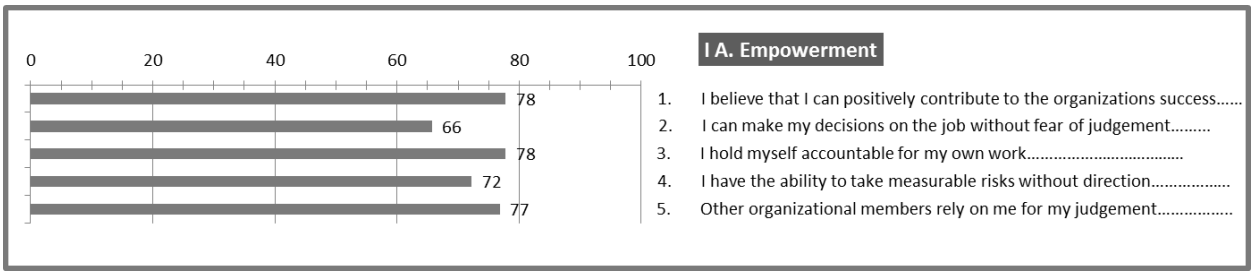


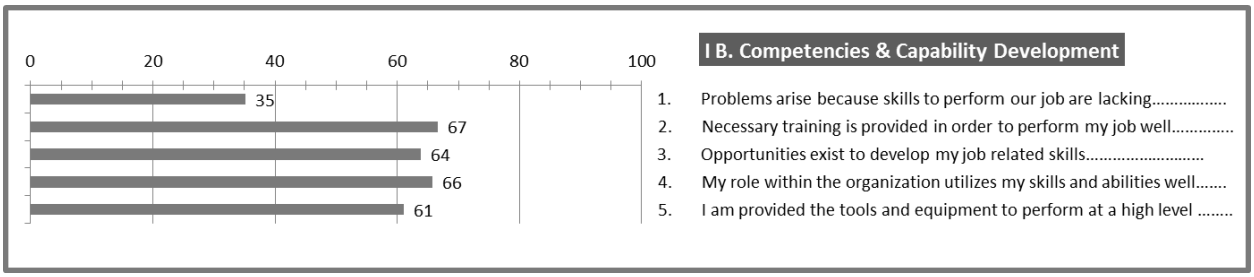


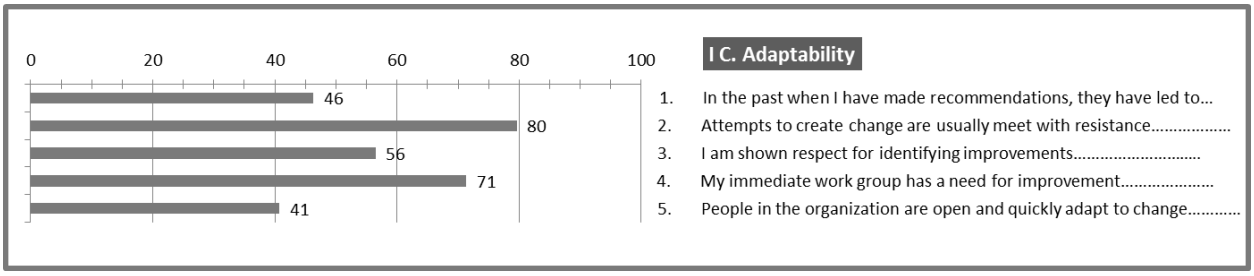


Culture Survey Core Competencies

VI. **Engagement**
Developing human capability, ownership, and responsibility

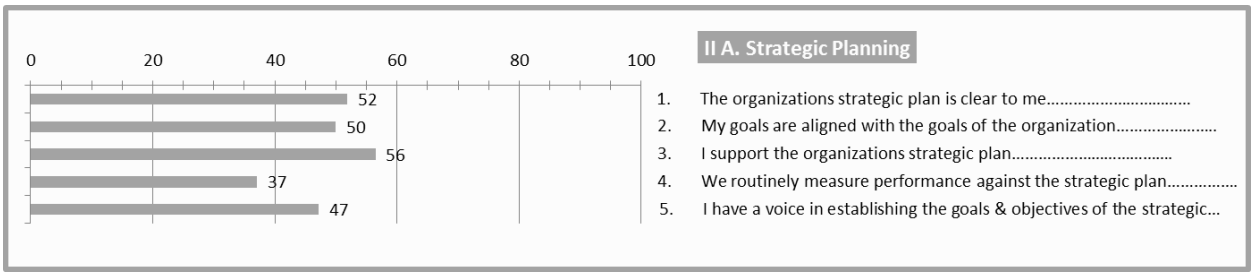


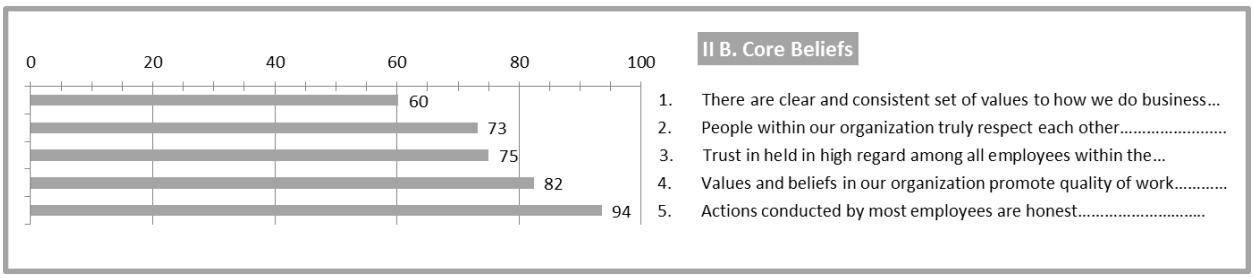


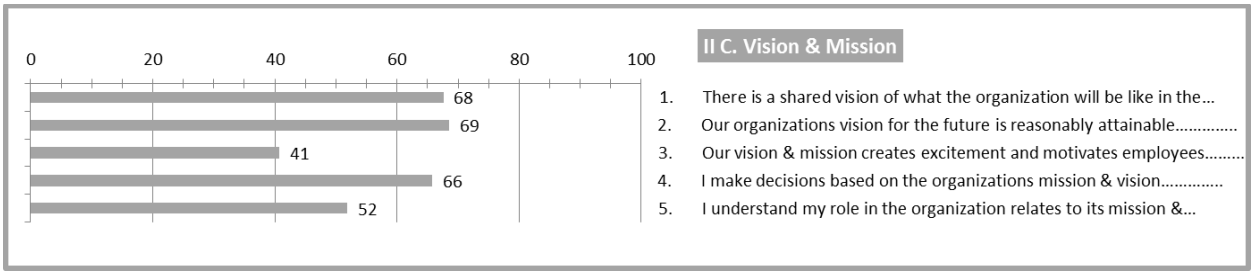


Culture Survey Core Competencies cont.

VII. Business Purpose
Establishing a meaningful, long range direction for the organization

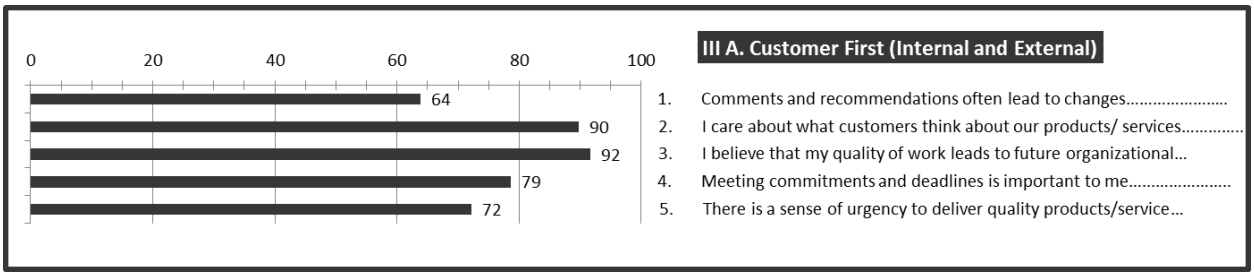


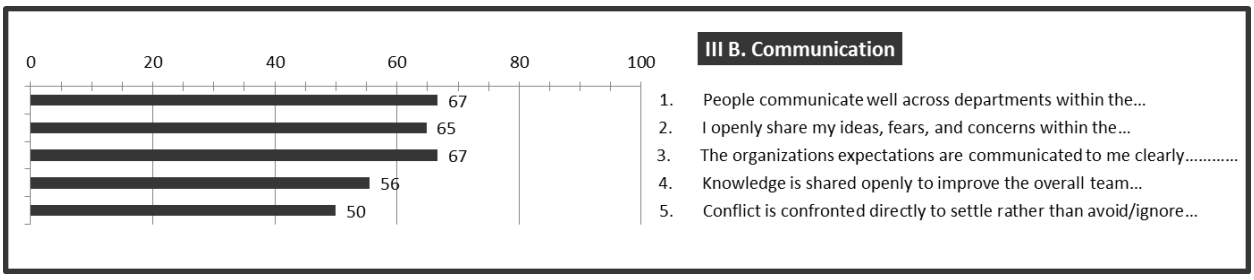


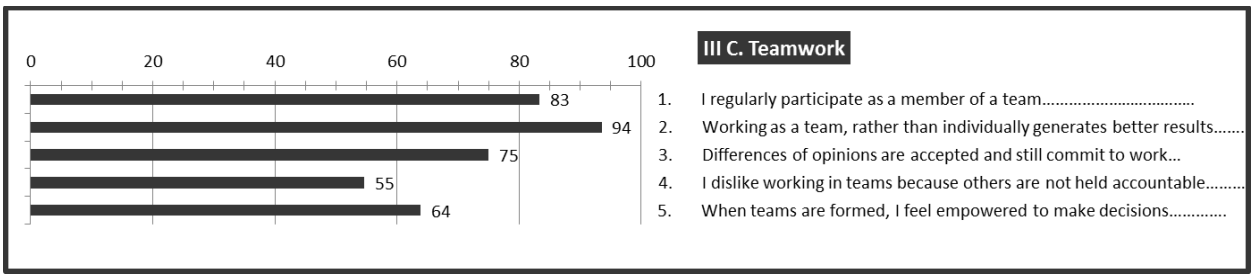


Culture Survey Core Competencies cont.

VIII. Operational Affinity
Establishing the values and systems that are the foundation for a strong culture.

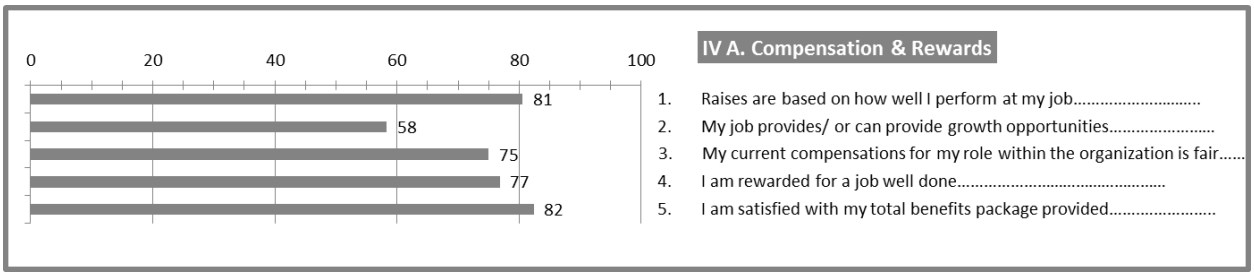


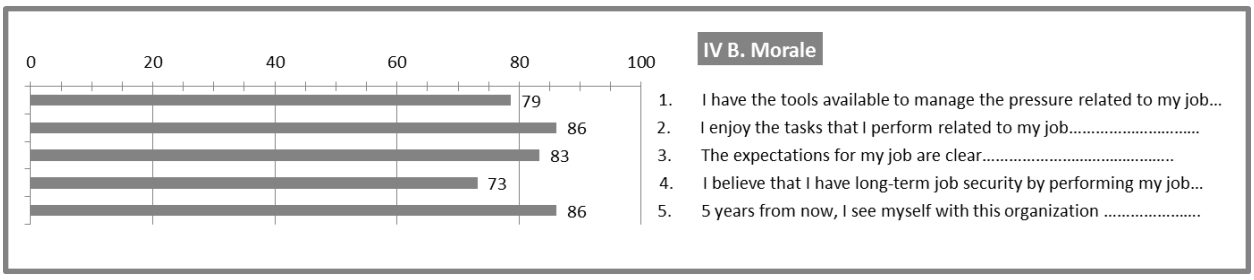


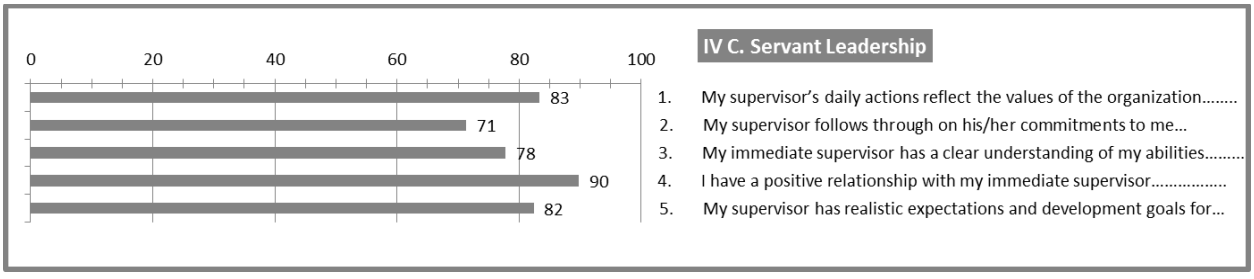


Culture Survey Core Competencies cont.

IX. Employee Satisfaction
Creating an environment that is people-focused.

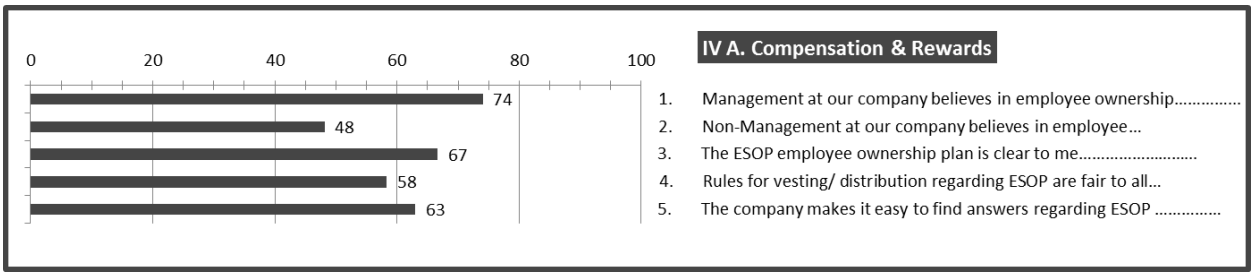


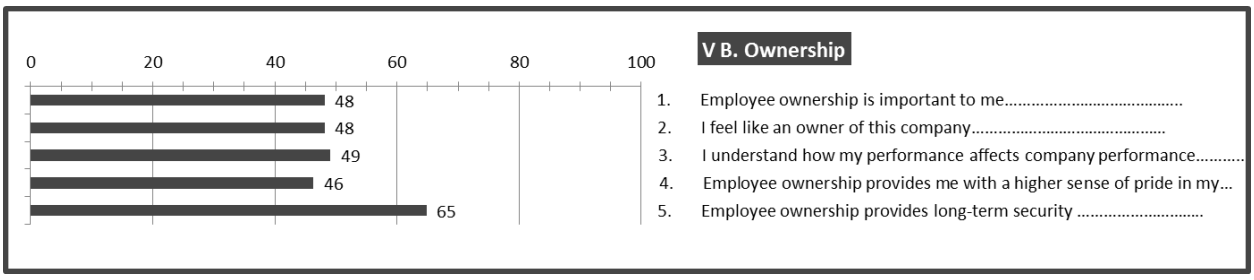


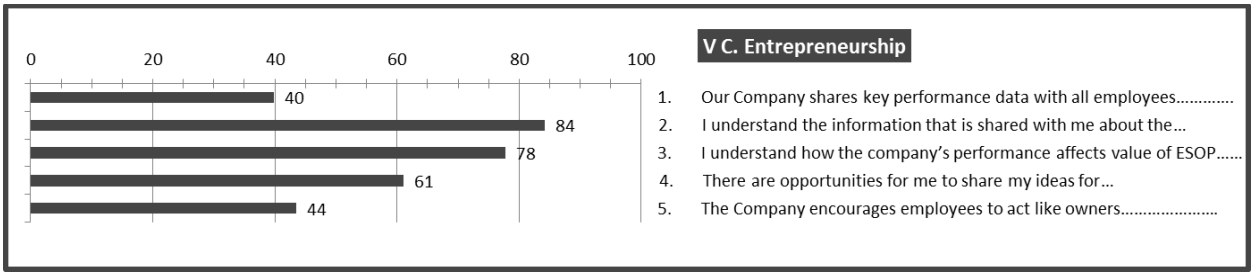


Culture Survey Core Competencies cont.

X. Employee Ownership
Establishing an environment for a strong employee-owned organization.

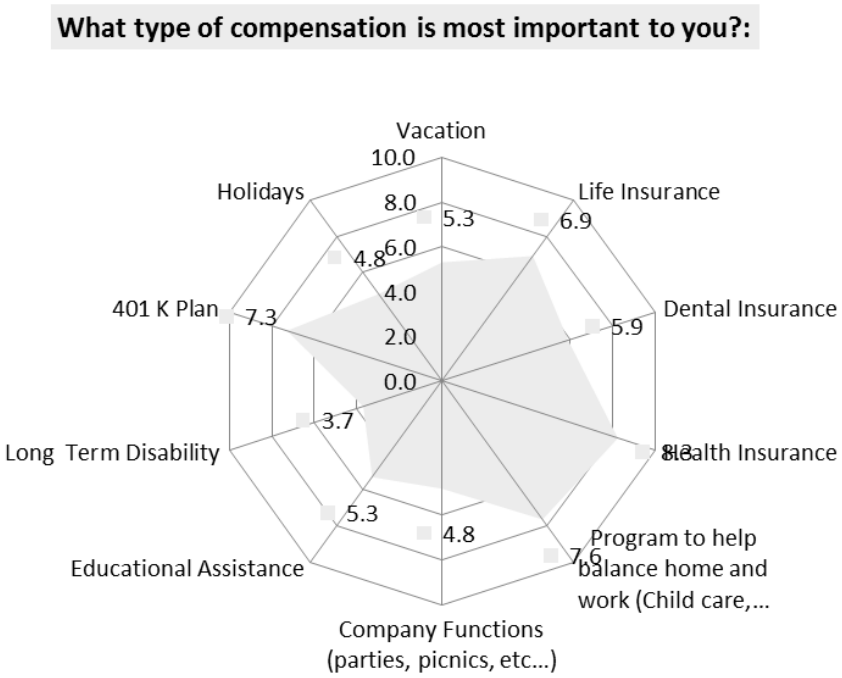




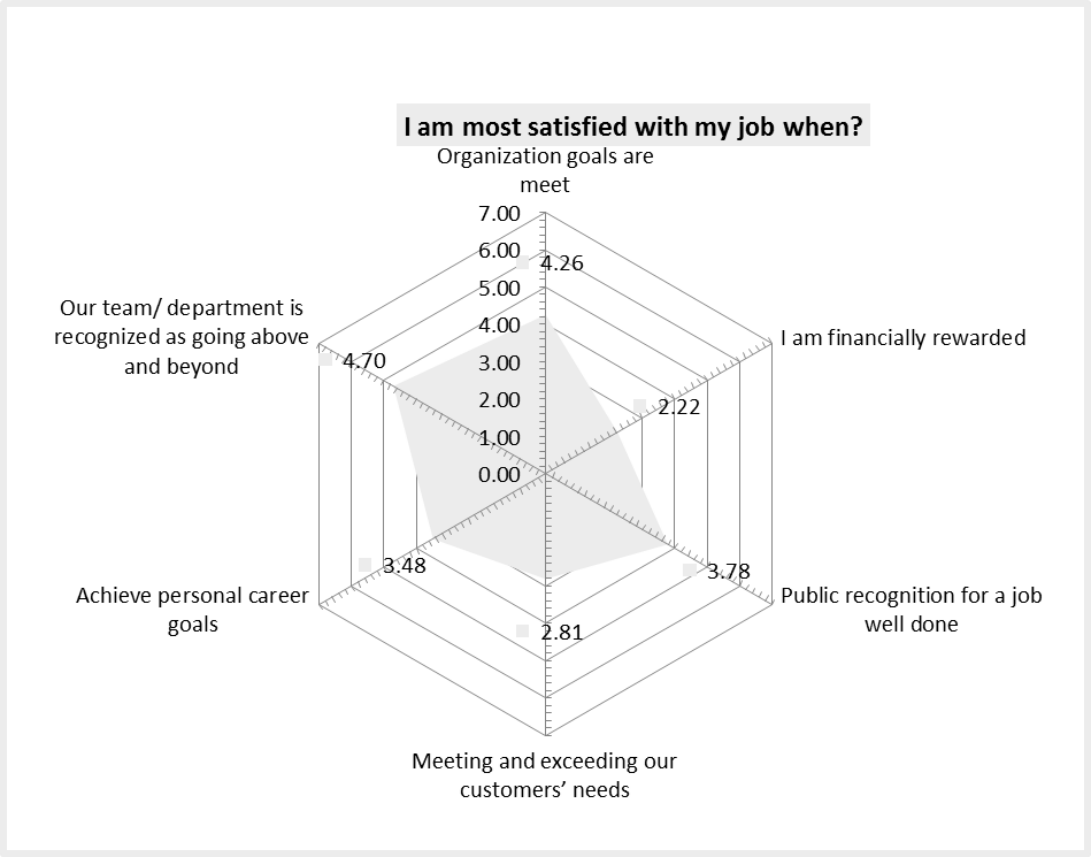


Ranking Questions

(Rank the following in order of importance with a score	
SCORES: High = >6 / Medium = >3 & < 6 / Low = < 3	
Vacation	Med.
Paid Holidays	Med.
401K Plan	High
Long Term Disability	Med.
Educational Assistance	Med.
Company Functions (parties, picnics, etc…)	Med.
Programs to help balance home and work (child care, flextime, etc…)	High
Health Insurance	High
Dental Insurance	Med.
Life Insurance	Med.
Others (please specify): _____	Low


What type of compensation is most important to you?:
Vacation
10.0
8.0
6.0
4.0
2.0
0.0
Life Insurance
Dental Insurance
Health Insurance
Program to help balance home and work (Child care,...
Company Functions (parties, picnics, etc...)
Educational Assistance
Long Term Disability
401 K Plan
Holidays
5.3
6.9
5.9
8.2
7.6
4.8
5.3
3.7
7.3
4.8

Rank the following in order of importance with a number (1=Most & 7= Least)	
Organizational goals are met	5.00
I am financially awarded	2.00
Public recognition for a job well done	4.00
Meeting and exceeding customers' needs	1.00
Achieve personal career goals	3.00
Our department is recognized as going above and beyond	6.00
Other (please specify):_____	7.00



Additional Comments and Suggestions

1. The organization at this time is structured in a manner that creates walls between varying levels within the organization. Each department operates with blinders on with little understanding on how one department affects the performance of another.
2. Checks and balances need to be established. There are team members that have free reign to do as they please making decisions that affect the organization at large.
3. Team members need to be held accountable for their actions. There are team members that have poor performance and attendance at best, but due to their "knowledge" are allowed to get away with it with no disciplinary repercussions.
4. If there is a strategic plan for the future, it is not shared at all levels of the organization. Organizational performance is only known at the top level, and only shared when things are not going well.
5. Balance of resources are not properly distributed. Some team members work long days to ensure the company is successful, while others just put in their time and go home. There is a lack of organizational cohesion.
6. Sharing leads to trust.
7. This was the first time I have taken a survey like this. Taking this survey was eye opening to my perception of the organization. I feel that if this organization wants to improve that this information should be acted upon and measured on a regular basis.