

Owners At Work

Ohio Employee Ownership Center

Volume XVI No. 1

Oglebay Norton

Great Lakes Sailors Want to Own Their Ships

When old-line Cleveland, Ohio shipping, mining and minerals company Oglebay Norton began to encounter difficult economic times last fall, the merchant seamen in the company's Marine Services Division understandably became concerned about their job security. In a unique endeavor in the waterborne shipping industry, they began to explore the possibility of buying the division and operating it as an employee owned enterprise.



Two ships of the line for Oglebay Norton. (top) Motor Vessel *Columbia Star* and (right) the steamer *Armco*.



This past February, Oglebay Norton filed for Chapter 11 bankruptcy protection. A string of debt-financed acquisitions that began in 1998 had hastened the company's slide into hard times. According to Robert Woodman, Second Mate on the *Armco* and President of the Oglebay Norton Employee Economic Empowerment Association (ONEEEA) that was formed to guide a possible employee buyout,

the company mortgaged all of the vessels in the marine division and invested that money in their overall expansion plan and

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First, a little background: The Oglebay Norton Company has been in business for 150 years and has something of a storied history. John D. Rockefeller used to work for Oglebay Norton. He, of course, later made a fortune in oil and also acquired several iron ore mines in northern Minnesota. Rockefeller then hired Oglebay Norton, his old employer, as the shipping agent for all of the iron ore produced at the mines. In the 1920s, the company got into the Great Lakes shipping business, which is what they are best known for. The freighter *Edmund Fitzgerald* was one of Oglebay Norton's boats when it sank in 1975 and was then memorialized in the Gordon Lightfoot song, "The Wreck of the Edmund Fitzgerald."

For many of its years of operation, Oglebay Norton was considered to be the premier shipping company on the Great Lakes. Today the Marine Services Division has 12 Great Lakes freighters employing about 500 people, mostly as merchant seamen. These employees are represented either by the American Maritime Officers union or the United Steelworkers of America.

Southwest Flies High with Employee Ownership

Southwest Airlines' CEO Jim Parker delivered the keynote address at the 18th Annual Ohio Employee Ownership Conference. About one quarter of Southwest is owned by the employees. Here are excerpts from what he said.

Southwest began as an idea on a cocktail napkin in 1967 when one of our cofounders, Rollin King, went to another of our cofounders, Herb Kelleher, and said he had this crazy idea of starting an airline that would offer low fares, take people where they wanted to go, and make flying fun. Legend has it that they went across the street to the bar at the St. Anthony Hotel where Rollin drew our route map, what came to be known as the famous "Texas Triangle" from Dallas to Houston to San Antonio. They changed the history of the airline industry that day.

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growth strategy. The expansion then ran into the brick wall of the U.S. recession in 2001. When the economy didn't cooperate, the steel industry declined, energy costs increased and market conditions in the building materials industry went downhill, forcing the company to default on loan agreements with its senior lenders in the summer of 2003.

"More than 70 percent of the working employees in the marine division signed a petition to explore the feasibility of an employee buyout," explains Woodman, "and more than 35 percent donated money toward conducting such a study." A study is currently being conducted with partial funding from the Ohio Department of Job & Family Services Prefeasibility Study Grant program. The National Cooperative Bank in Washington, DC, has expressed interest in helping to finance a buyout. The ONEEEA group has been working closely with Equity Expansion International and its president Norm Kurland, a well-known consultant in employee ownership circles. Says Woodman, "There is no reason in the world why we can't buy these

ships and operate them in the American trade. We have the talent and the desire, and perhaps, most importantly, the business model to compete and win in this market."

Since they began their efforts, a couple of things have happened that may complicate matters for the sailors. The ONEEEA has some competition in their quest. Others are interested in purchasing the boats: a group of former Oglebay Norton executives and the Buffalo, New York-based American Steamship Company. At present, Oglebay Norton says that it intends to keep the boats once it exits bankruptcy; however, says Woodman, "the company has asked us for a number and the employee group hopes they will be able to make an attractive enough offer to acquire the business and form a close working relationship with the rest of Oglebay Norton. We have to make that number work for the bank as well, so we have our work cut out for us." In the meantime, Oglebay Norton was recently successful in getting its plan of reorganization approved by the court and has also gotten debtor-in-possession credit facilities that it hopes will help it emerge from bankruptcy. Will the sailors be able to get the boats or will the company keep them? Stay tuned. **oaw**

Jim Parker (Continued from page 1)

Back then the industry was subject to strict regulation. The Federal Government told airlines where they could fly, when they could fly, and how much they could charge. As often happens in heavily regulated industries, prices were high, service was lousy, and efficiency was poor. It was a radical idea to introduce competition. Fortunately, Herb and Rollin knew about a loophole in the law: If you operated as an intrastate airline you would not be subject to the regulations that apply to interstate airlines. Texas was one of the few states where the geography and the dispersed population would lend itself to such a business operation. So they incorporated in 1967 and planned to start flying in 1968.

Existing airlines, however, considered the idea of competition to be un-American and launched a barrage of litigation that went through every court in Texas and all the way to the U.S. Supreme Court, delaying our startup until 1971. But just to show how things sometimes work out for the best: Rollin and Herb had planned to fly Lockheed Electra aircraft; however, while we were involved in litigation, the wings started falling off Electras. Then the airline industry went into a downturn, leaving Boeing with a bunch of "Black Tail" 737s sitting on the tarmac in Seattle. Rollin and Herb went up there, looked at them and decided to start with Boeing 737s instead. The Boeing 737 is now the most widely used airplane in America, largely because of the success that Southwest Airlines has had with it.

The litigation went on until June 17, 1971 when Herb Kelleher,

our lawyer as well as co-founder, convinced the Texas Supreme Court to issue an order to the lower courts to issue no more injunctions preventing Southwest from flying. Herb called our then-president, Lamar Muse, gave him the good news and said, "Lamar, tomorrow we're finally flying. You're going to push back that first flight. You're going to take off from Dallas Love Field." Lamar was understandably skeptical and said, "Well Herb, what do I do if the sheriff shows up with another writ in his hand?" Herb said,

***"Well Herb, what do I do if the sheriff shows up with another writ in his hand?"
Herb said, "Lamar, leave your tire tracks on his shirt."***

"Lamar, leave your tire tracks on his shirt."

Thus was born what I call "The Indomitable Spirit of the People of Southwest Airlines." We've always viewed ourselves as underdogs, having a mission of "Giving America the Freedom to Fly." Even so, our early survival was in jeopardy due to anti-competitive campaigns of our competitors. It got to the point our bank account was down to a few hundred dollars and we had to sell one of our airplanes to make payroll. Our employees decided that if we reduced turnaround time we could fly the

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The **OHIO EMPLOYEE OWNERSHIP CENTER** (OEOC) is a university-based program which provides information and technical assistance to retiring owners, buyout committees, labor unions, managers and community-development organizations interested in exploring employee ownership. Center staff can help locate competent and appropriate legal and financial advisors, and perform initial assessments to determine whether employee ownership is a viable option. The OEOC develops resource materials on employee ownership and participation systems, sponsors workshops and conferences for the general public, develops and delivers training programs for employee owners, facilitates cooperation among employee-owned firms, coordinates a comprehensive succession planning program, and assists international efforts to privatize businesses through employee ownership.

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same number of flights with three airplanes that we had been flying with four. This "10-minute Turnaround" meant we could continue to operate.

Sharing Profits & Ownership

We had one profitable route, Dallas-Houston. We lowered fares to \$26 on that route and were able to make a little money. But Braniff didn't want us to make even a little money, so they launched a \$13 fare between those cities. We couldn't make money at \$13, so the next day we put a full-page ad in every newspaper in Dallas, Houston and San Antonio. The ad said, *"If you think \$13 is the right amount to pay, pay us \$13 and we'll fly you between Dallas and Houston and Dallas and San Antonio. If you think \$26 is a fair price to pay, pay us \$26 and as a token of our appreciation when you get off the airplane we'll give you a free bottle of whiskey."* For awhile Southwest Airlines was the number one liquor distributor in Texas!

This also marked a turning point. We made our first profit in 1973. It wasn't a big profit, about \$171,000. That was when our Board of Directors decided to create the very first employee profit sharing plan in the airline industry, to make our employees owners of the company, allowing them to participate in the growth of Southwest. Since then, we have been profitable for 31 consecutive years. We have dedicated 15% of our pre-tax operating profit every year to our employee profit-sharing plan. Today, as a consequence, our employees, through just the profit sharing plan, are our largest single shareholder. It has about \$1.2 billion worth of Southwest stock. Our employees are not required to invest in Southwest, but historically they have chosen to invest about 70% of their profit-sharing money in Southwest stock and that is why they are the number one shareholder.

We didn't fly our first interstate flight until Congress noticed what was happening in Texas and passed the Airline Deregulation Act, citing Southwest Airlines as the primary example of the economic benefits that could be produced from deregulating the airline industry. We flew our first interstate route to New Orleans in 1979, creating a whole new round of litigation with those airlines who didn't want us to fly interstate, but we won that.

Nevertheless, we managed to grow and be profitable through the 1980s, focusing our growth in the west. Just a bit more than ten years ago, in 1993, the U.S. Department of Transportation commissioned a study on airline competition. They shocked the world when the study came back and was entitled "The Southwest Effect." They concluded that Southwest was the primary driving force behind fundamental changes in the U.S. airline industry. In 2003, the Department of Transportation announced that we carried more domestic passengers than any other airline in America.

Our philosophy and business model is simple. We are a low fare airline providing high quality service. To do that we have to have a low cost structure. We do not achieve that by paying mini-

mum wage. We pay very competitive, in many cases industry-leading, wages. Our advantage comes through efficiencies we achieve by operating one aircraft type. We also try to fly directly where you want to go as often as we can. Our people work very

"Employee ownership is a very important part of the culture and success of Southwest Airlines."

hard. They are very productive. They fly more hours than our competitors. They know this is a competitive world. They know this is their airline.

Collectively Bargained Stock Options

In 1994, we were on the tail end of a major depression in the airline industry that took the lives of fabled names in the airline industry—Eastern, Midway, PanAm and others. Our employees knew that we faced challenges as well. We are the most heavily unionized airline in America, and we have been for many years, but we negotiated an agreement with our pilots' union whereby

they took a five-year pay freeze in return for significant stock options—about 10% ownership of the company. This was the first time, at least in the airline industry, that stock options had been used on a widely dispersed basis and certainly in the context of a collective bargaining agreement. People thought we were crazy, but it worked out very well, helping us create a cost structure that allowed us to survive and be profitable. Our pilots have done very well with their stock options as our company has grown.

Subsequently, virtually every other union group within the company asked to negotiate a contract involving stock options. Every collective bargaining group, except for one that is still under negotiation, now has stock option agreements in place. We also have an employee stock purchase plan, which allows our employ-

ees to purchase our stock at a 10% discount.

I really feel that employee ownership is a very important part of the culture and success of Southwest Airlines.

We have sought to grow on a consistent basis every year, but to do so in a cautious and prudent way. It has been summed up in the phrase that was coined by our co-founder and longtime CEO, Herb Kelleher, when he cautioned our employees that we must manage our business in good times in such a way that we would be able to survive in bad times. The last three years have been the worst of times in the airline industry. Since 9/11 more than 100,000 airline employees have lost their jobs through furloughs and downsizing. *At Southwest we have furloughed nobody.* At Southwest we have not asked anybody to take a pay cut, except for Colleen Barrett, our president, and myself. In 2002, we were the only president and CEO of a major airline who took a pay cut and we were the only



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employees of Southwest Airlines who took a pay cut. We continued to give our employees pay raises while other airlines were imposing cuts.

It was as a consequence of our strong balance sheet and strong cash position that we were able to do the right thing after 9/11. Our company, our employees, had worked hard, productively, cautiously, and profitably for 30 years before 9/11. That put us in a position to be able to assure our employees' job security, continue to make profits, continue to grow and make profit sharing payments.

Communication & Vision

We have a company mission statement our employees are expected to know and live by. It's our version of the "Golden Rule." It's simple and easy to remember, just treat other people the way you like to be treated.

It's a pretty good rule for running a business, for dealing with customers, and for dealing with shareholders and fellow employees. We feel strongly about the importance of communication and creating a shared vision, a culture, within our workforce. As the example of United Airlines has shown, the mere fact of employee ownership does not assure success, it does not assure a shared vision, it does not assure a culture of cooperation.

We spend a lot of effort at Southwest Airlines on communicating with our employees. All new hires come to Dallas and go through an orientation to learn about the history of our company. They know the history that I have talked with you about today. They know our roots and how hard we fought to get to where we are today. We have all kinds of newsletters. One of the best things I think we have done is when we bring our new pilots in for their initial training, we bring their spouses. This way the pilot's spouse gets to know our company. This is important because we ask a lot of those pilots. They're going to be on the road a lot and away from home and it's important that their family knows they are out there doing something important.

We try to bring all of our employees together and create a shared vision. We celebrate a lot of things. Every employee gets a birthday card, every employee gets a card on their anniversary with the company. We send gifts to employees when they have a baby, or get married, or have some significant personal event. I don't want to know how much money we spend on all that. But really, the most important thing, in my view, is to have leaders of our company at every location, on every shift who understand the val-

ues of Southwest, who understand the mission of our company, who understand how we want to treat each other, who understand what we mean when we are talking about the Golden Rule. It doesn't mean everyone gets everything they want. Certainly we can't do that. But it does mean treating everyone with respect and understanding.

We've invested a lot of money in trying to improve the training of our leaders to make sure that message gets across. I think the biggest mistake that companies make when they get into a financial bind—*well of course their biggest mistake is trimming their travel budget*-- but the second biggest mistake is cutting training programs, especially leadership training. They think these are secondary and unimportant. In my view, training is not unimportant. It will define the future of your company.

Another thing we do is to go around every year and give a "A Message to the Field." We do it in five locations and people come in from all over the system and hear what we have to say. This year, I started off by talking about a movie I saw recently called *Miracle*. I thought it was a great movie and had

some great lessons in it. It was about the 1980 U. S. Olympic Hockey Team that went to the Olympics and defeated the mighty Soviet team that was considered to be the most dominant sports team in any sport, anywhere in the world. Against this backdrop, U. S. Coach Herb Brooks was assigned the task of putting together a team of amateur hockey players from the United States who could compete with the Soviets.

The Olympic Committee called together college hockey players from all over the country for a three-day tryout. Brooks picked his team in about an hour on the first day. When the Olympic hockey official asked him, "Herb, what am I going to tell everybody? We still have three days of tryouts." Brooks said, "Tell them I have my team." The official looked at the list and said, "Herb, you don't even have some of the best players on this list." To which Coach Brooks said, "I'm not looking for the best players, I'm looking for the right players."

I tell our people that at Southwest Airlines we have lived a miracle for 33 years because we have the right players on our team. We are more than just a collection of the best pilots, the best flight attendants, the best mechanics, the best dispatchers, the best customer service agents, reservation agents, aircraft assurance technicians, stock clerks, simulator technicians, and all the other people that it takes to run a great airline. At Southwest Airlines we are all owners and we are all workers. We hold our own future in our hands. **OAW**

The full text of this speech can be found on the OEOC website at <http://dept.kent.edu/oec/oeclibrary/parkerskeynote1.htm>



Some of Southwest's employee owners getting the job done. (Photos courtesy of Southwest Airlines)

Ohio's Top 50 ESOP Companies

Editor's Note: The information shown below is based on public information—Form 5500 pension reports to the IRS for plan years ending 1999-2001, as compiled by Larkspur Data Resources on its 2003 Pension Master CD. The data are a snapshot of Ohio companies at just one point in time. Some companies may have been merged, sold or closed since their plan was reported. Other companies may have since transformed the ESOP or stock bonus plan into some other kind of pension plan.

By Value/Participant*

1	Beverage Distributors	\$336,504
2	Procter & Gamble	\$267,070
3	Allied Mineral Products	\$208,610
4	The Richter and Phillips Company	\$203,995
5	Ohio Valley Supply	\$203,762
6	Fastener Industries	\$202,767
7	Floturn	\$198,984
8	J P Sand & Gravel	\$198,358
9	S. G. Morris	\$189,481
10	Producers Service Corp.	\$184,508
11	Ketchum & Walton	\$173,802
12	Richard Goettle	\$159,313
13	Great Lakes Construction	\$157,973
14	The Philpott Rubber Company	\$152,994
15	Wood Bancorp	\$148,159
16	DHG	\$144,605
17	Garland Industries	\$141,277
18	Impact Products	\$140,632
19	Cincinnati Transmission	\$139,797
20	The Antioch Company	\$134,101
21	Shelly Company	\$130,142
22	Perry Corporation	\$123,827
23	Deco Tools	\$120,802
24	WMOG Inc.	\$119,847
25	Spencer Patterson Agency	\$119,091
26	Buckeye Rubber and Packing	\$118,753
27	Industrial Bancorp	\$109,932
28	Akron Hardware Consultants	\$106,313
29	Sharon Manufacturing	\$105,171
30	OMG Americas	\$100,335
31	Columbus Temperature Control	\$99,796
32	Roush Equipment	\$99,536
33	Great Financial Bank	\$96,062
34	Vi.Cas Manufacturing	\$95,983
35	South Texas & Lone Star Dry	\$93,859
36	First Niles Financial	\$92,747
37	The Marfo Company	\$92,555
38	Power Transmission Technology	\$91,367
39	Webb Insurance Agency	\$84,835
40	Wallingford Coffee Mills	\$80,817
41	Swagelok Company	\$77,914
42	Frank Messer & Sons Construction	\$77,740
43	Firstenergy	\$72,963
44	J M Sealts	\$72,337
45	YSI Incorporated	\$71,220
46	NB&T Financial Group	\$70,646
47	Haverfield	\$68,173
48	Star Bronze	\$67,796
49	Torrence Sound Equipment	\$67,526
50	Carbo Forge & Machining	\$67,496

* Companies with 10 or more participants

By Total Plan Assets**

1	Procter & Gamble	\$11,851,753,077
2	TRW	\$2,562,793,149
3	Parker Hannifin	\$1,370,564,445
4	Goodyear Tire & Rubber	\$1,319,152,483
5	Cardinal Health	\$1,181,072,768
6	Eaton Corporation	\$1,176,229,239
7	Firstenergy	\$1,030,052,746
8	Goodyear Tire & Rubber	\$728,409,215
9	Swagelok Company	\$435,533,243
10	Charter One Bank	\$384,068,859
11	Timken	\$354,978,708
12	Milacron	\$304,223,206
13	Cintas Corporation	\$300,120,107
14	Roadway Express	\$252,695,116
15	Diebold Incorporated	\$228,668,327
16	Applied Industrial Technology	\$213,431,377
17	Ferro Corporation	\$137,880,763
18	Provident Financial Group	\$128,293,189
19	DPL	\$117,588,743
20	Antioch Company	\$117,472,598
21	Ohio Casualty Insurance	\$112,626,330
22	Advanced Drainage Systems	\$98,674,682
23	Timken	\$92,275,553
24	Summa Health System Hospital	\$79,780,500
25	Sterling Commerce	\$76,751,175
26	Caliber System	\$72,063,459
27	Shelly Company	\$66,761,027
28	Great Financial Bank	\$66,421,679
29	OMG Americas	\$66,421,621
30	Parker Hannifin	\$63,022,409
31	Elder Beerman Stores	\$57,414,707
32	Fastener Industries	\$55,355,364
33	Floturn	\$53,361,520
34	Timken	\$53,100,930
35	Kirkwood Industries	\$50,838,282
36	Mosler	\$50,507,136
37	Mid Am	\$49,297,420
38	Lancaster Colony Corporation	\$47,946,574
39	Allied Mineral Products	\$43,808,151
40	Seaway Food Town	\$42,471,453
41	Chiquita Brands International	\$41,030,310
42	Garland Industries	\$39,274,951
43	Davey Tree Expert Company	\$38,282,886
44	Oglebay Norton Company	\$32,718,774
45	Broadwing	\$32,338,063
46	Price Brothers	\$32,213,021
47	Great Lakes Cheese Company	\$30,837,874
48	The J.M. Smucker Company	\$30,751,753
49	United Community Financial	\$30,183,058
50	Patio Enclosures	\$28,771,050

** Some companies have more than one plan

By Number of Participants

1	TRW	39,784	26	Davey Tree Expert Company	2625
2	Procter & Gamble	39,023	27	Chemed	2599
3	Cardinal Health	31,532	28	DPL	2435
4	Parker Hannifin Corporation	23,722	29	Sterling Commerce	2332
5	Goodyear Tire & Rubber	21,712	30	Parker Hannifin	2009
6	Cintas Corporation	20,864	31	Advanced Drainage Systems	1801
7	Eaton Corporation	19,765	32	Broadwing	1719
8	Firstenergy	11,568	33	American Annuity Group	1424
9	Elder Beerman Stores	10,205	34	Heidtman Steel Products	1417
10	LTV Steel	9172	35	Oglebay Norton Company	1233
11	Charter One Bank	7494	36	Chiquita Brands International	1111
12	Milacron	7336	37	The J.M. Smucker Company	1082
13	Roadway Express	7288	38	Zandex	1012
14	Diebold Incorporated	5933	39	Great Lakes Cheese Company	1004
15	Summa Health System Hospital	5548	40	Mid Am	990
16	Timken	5468	41	The Antioch Company	876
17	Applied Industrial Technology	5362	42	Bonne Bell	826
18	Caliber System, Inc.	4045	43	Republic Storage Systems	821
19	Ohio Casualty Insurance	3676	44	DLZ Corporation	812
20	Lancaster Colony Corporation	3661	45	Mosler	803
21	Swagelok Company	3647	46	Stark Truss Company	789
22	Ferro Corporation	2779	47	Automated Packaging Systems	771
23	Provident Financial Group	2766	48	LiquiBox Corporation	756
24	Invacare	2730	49	Kirkwood Industries	751
25	M A Hanna Company	2627	50	Manfredi Motor Transit Co.	724

New Evidence Shows Impact of Ohio's Employee-Owned Network

Editor's Note: In past issues, we've examined the impact of Ohio's Employee Owned Network and found that members of the Network report better performance than other employee-owned companies. What follows is more evidence on the "Network Effect" from Internal Revenue Service records. This article is excerpted from a paper prepared by Jacquelyn Yates for EuropeetSociete, a conference on employee financial participation sponsored by the European Commission, held in Paris on April 28 and 29, 2004. The full text is available on the OEOC website (www.kent.edu/oec).

What difference can a support activity like Ohio's Employee-Owned Network make? Newly developed data from Internal Revenue Service records points to a highly favorable "Network Effect" that puts wealth into the pension accounts of employee owners.

According to data developed from IRS Form 5500 pension reports, Network members created a minimum of 9.3% of the total pension wealth of Ohio ESOPs and stock bonus plans with just 1% of the employees. Network members had 9.8% of the gains in net assets 1993-2001 and 7.1% of the total payments to participants.

The Network

If there is a Network effect, how does it come about? The Network was created in 1989 when a dozen employee-owned companies asked the OEOC to create a process for inter-company collaboration. Today it is an association of 65 employee-owned companies providing training and organizational development services to improve business performance. It is staffed by the OEOC, but the members set its direction and training curriculum. Recent additions to Network services include a purchasing cooperative (developed in 2003), and a revolving loan fund able to provide loans for expansion on favorable terms (OEOC assumed administration in 2004). In terms of participation and longevity, the OEOC considers Ohio's Employee-Owned Network to be one of its most successful endeavors.

Regular activities include training for nonmanagement board members, basic business and ESOP education for rank-and-file employees, training for front-line and midlevel supervisors, basic training for fiduciary oversight of the ESOP trust, updates on ESOP law for plan administrators, and effective management of committees and meetings. (See, for example, the Network offerings on page 16.) The curriculum offers something for every employee-owner, from the CEO to the rank-and-file worker. There are occasionally new topics in the annual curriculum as member companies encounter new challenges and look to the Network for assistance. Over the years, long-time member companies have sent many employees for Network training.

Typically, training sessions involve employees from a variety of companies, and feedback from members indicates that the opportunity to exchange ideas with other employee-owners is especially valuable. Time for free discussion and interaction is regularly included in programs. The Network programs also encourage friendly socializing among company leadership.

The Network's training curriculum is funded in part through the Ohio Employee Ownership Assistance Program, which has received strong support from both parties in the Ohio legislature and the governor's office, working through Ohio's Department of Development (*Owners at Work* Winter 2004).

Long- and Short-Term Membership

Since Ohio's Employee-Owned Network is primarily a training association, any impact of the Network would be seen only after some years of membership, as insights gained from training are incorporated into the company culture, and as the proportion of employees who have attended training programs increases. It wouldn't be reasonable to expect companies with memberships of two years or less to benefit much from Network participation. But a comparison of short-term Network members (for 3-5 years) with long-term members (6-15 years) reveals that short-term members are notably less wealthy. Their median plan value is \$12,906 per participant, as compared to \$31,987 for the

long-term members. The annual growth in the plan value per participant is also lower for short-term members: they report growth of \$1,031 per participant per year, as compared to \$1,608 per participant per year for the

long-term members. Even though the two groups are small, the differences are large enough to be statistically significant. Long-term members, with 0.5% of the employees, created 6.6% of the total pension wealth (gains in net assets over the period, plus payments to participants) of all Ohio ESOPs and stock bonus plans. The short-term members, with 0.2% of the employees, created 0.6% of the wealth. The growth of nonmembers' pension plans is notably lower than both long- and short-term members. Figure 1 compares wealth created per employee for nonmembers, 3-5 year members and 6-15 year members.

It probably isn't just longer ESOP life spans that accounts for the greater success of long-term members: the ESOPs of long-term members are typically only about 4 years older than those of short-term members.

Network Members are more stable

From the IRS data, it also appears that Network Members are more stable than others. During the 1993-2001 period, some ESOP plans were created and some did not report for the full time span. There were 205 companies with reports throughout the period. Of these, 42 (22%) were Network members, while the percentage of Network members in the entire group of 528 distinct plans was 8%.

Network members created a minimum 9.3% of the wealth with just 1% of the employees

Early research on employee involvement, support organizations and the Network

Despite the difficulties of assessing the impact of a diffuse and disaggregated set of activities like the Network, there is some research supporting the hypothesis that training for employee involvement has a strong impact in the presence of employee ownership. A 1987 U.S. Congress General Accounting Office study of companies with Employee Stock Ownership Plans found that **only ESOP companies with employee involvement enjoyed better performance** than conventional firms.

The diffuse impact of employee involvement has also been measured in a study by finding that employees who engaged in cross-functional problem solving teams subsequently became more productive in their individual work (Derek Jones and Takao Kato, <http://dept.kent.edu/oeoc/OEOCLibrary/JonesDerek-paper20040408.pdf>).

Earlier, Logue and Yates, reprinted in *The Real World of Employee Ownership*, found that future Network members did not practice participation more than others before they became employee-owned, but after they established their ESOPs, they surpassed other employee-owned companies in communication, training, participation, and performance.

Network Members Deepen Their Ownership

Another possible Network effect is a tendency for employees in Network companies to increase their share of ownership over time. Between 1998 and 2001—the first years for which data are available—16 of 52 Network member companies increased their employee ownership percentage from an average of 45% to an average of 69%. From 2001 to 2002, an additional eight companies of 52 in the Network increased their ownership share from an average of 55% to 71%.

Purchase of additional stock cannot occur unless the company is prospering, and owning a larger share of their prosperous companies does enhance the wealth of employee-owners. But since we don't know if a similar pattern occurs among nonmembers, we can't be sure how to interpret the growth of network members' pension plans. Without knowing the pattern of ownership change in nonmember companies, we can only raise a caution about interpretation of the IRS data.

To sum up, the evidence from different datasets points to Network effects: enhanced firm performance and increasing employee wealth. The case for the beneficial impact of the Network is not closed, but the accumulating evidence lends support to the conclusion that, over time, a network organization can enhance the longevity and economic success of employee-owned companies.

*Study methods

The data were drawn from Larkspur Data Resources' Form 5500 pension CDs. Because filing is required by law, the Form 5500 data is the most complete set of data on

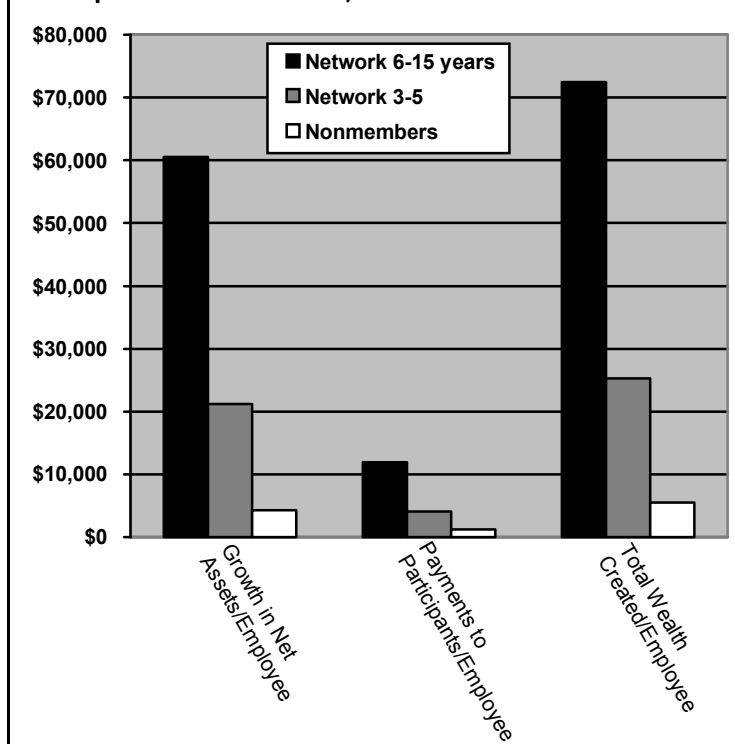
ESOPs. The IRS requires evaluation of pension plan assets using stock market prices for public companies and professional valuations for closely held ones. Firm performance is reflected in the changing value of the pension plans: profitable companies have higher stock prices and higher valuations. Growth in plan values, combined with amounts paid out to participants, estimates pension wealth created. Debt pay-offs and purchases of additional stock can also increase plan value, but ESOP companies cannot do that unless they have sufficient profits.

In past years, companies with ESOPs having more than 100 employees were required to file Form 5500 annually, while smaller plans filed every three years. In Larkspur

Data Resources annual editions, the triennial data reports were simply repeated. Therefore, to avoid duplication, data were drawn from three CDs at least four years apart, dated 1993/94, 1999 and 2003. Reporting dates for the ESOPs, leveraged ESOPs and stock bonus plans covered 1993 through 2001.

Companies known to have terminated their plans and those that reported no assets were eliminated from the analysis. Network members with out-of-state headquarters were excluded. Procter and Gamble, a huge Ohio multinational now 30% employee-owned, was excluded because its wealth and participant payouts overwhelm the reports of all other Ohio ESOPs and include facilities and employees from outside Ohio. Finally, four companies that have acquired their ESOPs recently and are still heavily indebted were excluded from the analysis, because their assumption of debt made it appear that the pension plans were losing money when in fact they were simply borrowing to buy shares in their companies. **OAW**

Figure 1. Ohio's Network: Short- and Long-term members compared to nonmembers, 1993-2001



Davey Tree Stands Tall with Employee Ownership

Karen Thomas

Over 25 years, The Davey Tree Expert Company's employee owners built a good small company into one of the premier companies in its industry, with an entrepreneurial zest for new products and acquisitions. The company's development would have pleased its inventive founder and probably surprised the family members who sold it to hesitant employees in 1979.

"The lifeblood of Davey are the field managers and employees, and broad employee ownership is the glue that binds us together," explained CEO Doug Cowan. "Each of our field managers is a true entrepreneur who sells the work, hires the people, and makes sure the job gets done. The majority of our 113 original stock investors back in 1979 were the District Managers."

Headquartered in Kent, Davey is the largest 100% employee-owned firm in Ohio and the 16th largest in the U.S. Since the ESOP was established, the number of employees has almost doubled from 2,800 to 5,100, the number of employee-shareholders has increased six to seven fold from 438 in 1979 to over 3,000 today. Revenues have grown from \$60 million to \$346 million, per share price has grown from \$0.47 to \$15.70 and shareholders' equity has grown from \$9 million to \$62 million.

"We like the idea of broad employee ownership," said Cowan, "It fits our entrepreneurial culture and fosters a common interest across our locations in the U.S. and Canada."

A Frustrating Journey from Idea to Reality

But it wasn't easy to establish employee ownership at Davey. The buyout occurred after a frustrating 18-month process that began on November 1, 1977, when the Davey family announced their intention to sell the company. The idea of employee ownership was initiated by former president Jack Joy, former executive vice president Jim Pohl, and then-controller Cowan, who quickly formed an Employee Ownership Committee. They found widespread support for the idea of employee ownership and two weeks later made a formal purchase offer.

Employee ownership was attractive to the family because the motivation and commitment of employees is key to the company's locally-based services. They encouraged the Employee Committee to continue to explore financing. The employees made a second offer in May of 1978, but the funding for their business plan was tight.

"Direct employee stock ownership by all the employees was our vision, so the ESOP was not part of our planning," explained Cowan. But an ESOP was included in their third purchase offer two months later. This offer coincided with offers from two other groups which brought the employees' buyout negotiations to a standstill.

Finally, amid growing frustration and uncertainty about the future, the Board approved the Committee's fourth purchase offer. It took seven more months to finalize financing and get approval from the Securities and Exchange Commission. On March 15, 1979, controlling ownership was transferred to the employees. After the buyout, the family owned 21% of the shares, retirees owned 11%, and employees owned 68%. One major family shareholder held shares under a buy-sell agreement for a future transaction.

Then came the first disappointment. "We wanted everyone to buy stock through the subscription plan, but only 113 employees did," recalled Cowan. "We were disappointed. Yet all

438 eligible employees were enrolled as participants in the ESOP the next day."

Despite a reluctance to become direct shareholders, employees have enjoyed the rewards of ownership ever since. In their first year as owners, sales rose 15%; earnings from operating income rose by 79.3%; and equity increased 30%.

Father of Tree Surgery Finds a Tree Care Industry

"John Davey, the company's founder, would have liked employee ownership because he was a common, hard-working guy," said Cowan. Davey grew up in rural England, apprenticed in horticulture, and arrived in Kent to seek his fortune as groundskeeper at the local cemetery. By 1880 he was recognized locally for his methods of tree surgery, his writings and lectures on tree care, and his plantings. He incorporated The Davey Tree Expert Company in 1909 (at the age of 63) and established a school of tree science.

Davey gained national recognition for tree preservation through his wealthy customers, most notably the Rockefellers, who continued to recommend Davey tree care services when they moved from northern Ohio to New York. Davey's son, Martin, set up sales/service territories nationwide, staffed by enterprising managers trained in Davey's school. Martin had a knack for sales promotion and won contracts to maintain trees at the White House and around Washington D.C. He later became active in Ohio politics, serving as Governor from 1935-1939.

While tree care is the core of Davey's residential services, the company has branched out into vegetation management, utility line-clearing, big tree moving, nursery operations, golf and sports turf maintenance, and specialized research, planning, and education projects. Davey also sponsors The National Register of Big Trees and Global ReLeaf.

The Power of the Davey Culture

Education and training is a big part of Davey's culture, as it has been for the past century. Davey is the only company in the industry that provides such extensive training in tree care, especially distance learning. There are currently 600 online students. Most managers have studied at the Davey Institute of Tree Science which runs a program during the winter.

"We are seen as an employee-friendly company," said Karl Warnke, Davey President & COO, "and this helps our acquisition strategy. Most of the companies in our industry are local 'mom and pops' who know we will provide a safe haven for their employees. Some selling owners got their start with us years ago and won't sell their business to anyone else!"

A Profile of Employee Share Ownership

"If an employee is here a couple of years, they start to take an interest in buying our stock," said David Adante, Davey's CFO. Davey offers four types of employee stock ownership.

Stock Subscription Program. The stock subscription program is the company's attempt to get each generation of young managers to make a commitment to Davey. Employees can buy shares with 10% down and a note over a 7-year payoff period.

Over the past 25 years, three subscription programs have been offered—one per decade. The first was part of the employee buyout in 1979. The second offering was in 1989, and 144 signed up.

The third was in 2002, and more than 350 subscribers purchased over \$10 million in Davey stock.

First an ESOP, now a 401KSOP. The ESOP was started in 1979 because of the financing advantages. "We set up a slow release of ESOP stock through refinancing and paying the loan over a longer period because we wanted to allocate a smaller percentage of ESOP stock each year and include new employees joining Davey," Adante said. "We finally paid off our original ESOP loan in 1996."

In 1997 the company setup a 401KSOP, which incorporated the ESOP accounts, as the primary employee ownership/retirement benefit program. Employees put their own money in and their contribution is matched with Davey stock at 50 cents on the dollar. Over 2,900 employees participate and, as of December 31, 2003, own approximately 2.77 million shares or 32% of the company."

"The ESOP represented 48% of employee stock ownership in the beginning. But we prefer to see more shares owned directly," commented Cowan and Adante.

Stock Purchase Plan. The stock purchase plan was started in 1982 as an affordable means to get all Davey employees involved as shareholders. "This strategy has succeeded," explained Adante, "we have averaged about 1000 employees per year participation. We offer two enrollment periods a year when employees can buy stock at a 15% discount." In 2003, 900 employees purchased 83,061 shares.

Stock Options. Stock options are periodically granted to company managers in both the U. S. and Canada. "Our Canadian employees can't participate in the 401KSOP," explained Adante, "so they are offered some stock options which are not given to the US managers; and they can participate in our stock subscription and stock purchase plans."

Run Like a Public Company

"We run the company as if we were a public company," explained Cowan, "While our 20 officers and directors own 25% of the shares, they do not own a controlling interest, and no one owns more than 5%. While employees are owners, they have no more rights than they would as shareholders in a public company."

The employees who own shares directly vote their shares as investors would in a public company, to elect directors and for shareholder proposals. Over the years, about 80% of the employee shareholders on average have voted their shares either in person or

by proxy. More than 100 employees and retirees attended the 2004 Annual Shareholders Meeting. The employee participants in the 401KSOP also vote the stock in their accounts through a directed trustee who votes the unallocated shares on a proportional basis.

The composition of Davey's Board of Directors is similar to a public company, with a majority of outside directors. The two inside directors are Cowan and Warnke. Davey's outside directors bring a mix of talents; and all are selected because they are people focused.

Stock Repurchase Obligation

"We redeem \$5-8 million in shares per year," said Adante. "About 20% of our total cash flow goes for stock repurchases, including ESOP distributions which are around \$1-1.5 million per year. Our future stock repurchase liability now is about \$150 million."

"To manage repurchase liability, stockholders can only sell so many shares for cash during one year," explained Adante, "and they must take five-year notes for the remainder." The percent of the com-

pany owned by retirees is currently 20% and growing. Retirees can only pass the shares down one generation and cannot sell their stock to others.

Transitions in Leadership

"Most of our officers have

been with the company for 25 or more years, so management succession is a major concern," explained Cowan. "We can bring outsiders more easily into our scientific, IT, and accounting areas than in operations because our culture is so unique. We have a successful, entrepreneurial culture of strong individualist field managers who run their own operations. They do not respect outsiders easily, nor any interference that is too bureaucratic. Transition has to be a

top priority—we work at it to give people broad exposure."

Warnke added, "Developing the future leaders for any of the top positions in the company is an on-going process. The successful ones not only have the practical experience behind them, but also the business skills to keep the company financially sound. Additionally, and of utmost importance for the continuation of our successful business model is that succession candidates demonstrate total understanding and steadfast commitment to the ideals of employee ownership and our rather unique culture. Without question, these are some of the strongest competitive advantages we have and with continuous improvements, will carry us to future successes. Not everyone can totally commit to this philosophy, but then Davey Tree may not be for everyone." For more information, see www.davey.com **OAW**



In 1908, The Davey Institute of Tree Surgery, a school for Davey Tree employees, was founded to teach scientific knowledge, technical skills, and to provide off-season employment. The tradition lives on in the Davey Tree Institute of Tree Sciences (top). (above) Signatures on a document were the final step in transfer of ownership of the company from the Davey family to its employees. Employee committee members (seated l-r) J.H. Pohl, J.W. Joy and R.D. Cowan and (standing l-r) P.V. Auletta of Society Bank and J.H. Humphrey of U.S. Trust took part in the ceremonial signing. (right) Davey employee owner works from the air.



Ohio Gives a Vote of Confidence to Employee Ownership

The Ohio Legislature and Governor Bob Taft have cast a big vote of confidence for employee ownership by removing the "sunset" provision from the state's employee ownership assistance program. House District 68 (Portage County) Representative Kathleen Chandler proposed the elimination of the provision.

Ohio is one of just a handful of states that have created an active program to promote and support employee owned businesses. The Ohio Employee Ownership Assistance Program was first passed by the legislature in 1988 by a unanimous vote of both houses and requires

the Ohio Department of Development to develop and provide information to promote the establishment and successful operation of employee-owned companies; to assist in the evaluation of the feasibility of employee buyouts; to provide technical assistance in buyouts and to provide assistance and counsel in the operation of employee-owned firms. As a practical matter, the Ohio Employee Ownership Center (OEOC) at Kent State provides these services as part of ODOT's Labor-Management Cooperation Program.

The initial legislation included a provision that the Program had to seek new legislation every five years in order to continue in operation. The Program was renewed in 1994 and again in 2000, both times by unanimous vote. The renewal in 2000 carried a sunset date of December 31, 2004. However, because of the successful track record of employee owner-

ship in Ohio, the legislature in late May passed a bill that repealed that sunset date. Governor Taft signed the bill on June 8. The program is now a permanent part of Ohio law.

Employee ownership has proven to be an effective means to retain and increase jobs in Ohio. Today some 450 partially or wholly employee-owned companies employ more than 325,000 people in Ohio. Under the Ohio Employee Ownership

Assistance Act, the OEOC has worked with 463 companies, employing 84,000. Sixty-nine of those companies, with 13,560 employees, became partly or wholly employee owned. Since their buyouts, these companies have created \$300 million in equity, at a cost to the state of roughly \$250 per job retained. And Ohio has almost double of the rate of ESOP creation as the rest of the country.

Experience has shown that employee ownership is not only useful in dealing with owner succession and preventing plant shut-down, but also increases productivity and efficiency in healthy companies by enhancing employee motivation. The Ohio Employee Ownership Assistance Program continues to be highly cost-effective in providing timely assistance and advice to Ohio firms. Even some companies that didn't become employee owned received help from the OEOC. Some were assisted in finding a buyer who would keep the company open. Some were helped to find friendly financing. As a result, thousands of Ohio jobs have been retained that might otherwise have been lost. **OAW**

Ohio is one of just a handful of states that have created an active program to promote and support employee owned businesses.



State Representative Kathleen Chandler (68th District)

U.S. Employee Ownership Bank Bill Update

In the last issue of *Owners At Work* (Winter 2003/2004), we reported on the introduction in the U.S. House of Representatives of the United States Employee Ownership Bank Act that directs the Secretary of the Treasury to establish the United States Employee Ownership Bank in order to foster increased employee ownership and participation in company decision-making throughout the United States. The bill, H.R. 2969, was introduced by Vermont Congressman Bernie Sanders and 17

co-sponsors last summer. The bill was then referred to the House Subcommittee on Domestic and International Monetary Policy, Trade and Technology, which is chaired by Representative Peter King (NY). Four of the Employee Ownership Bank Act co-sponsors sit on the Subcommittee: Bernie Sanders (VT), Barbara Lee (CA), Carolyn Maloney (NY) and Donald Manzullo (IL). The Subcommittee has not yet scheduled a hearing on the bill, which is the next step in the legislative process. **OAW**

CCHD Contributes \$10,000 to Loan Fund Administered by OEOC

At the Ohio Employee Ownership Conference in Akron last April, Deacon Rocky Ortiz and Brian Corbin of the Catholic Campaign for Human Development (CCHD) presented Dr. John Logue, Director of the OEOC, with a \$10,000 grant to the Common Wealth Revolving Loan Fund (CWRLF) to underwrite the cost of marketing the fund's loans to ESOP companies and growing investments in the Loan Fund itself.

Corbin explained that the Catholic Church has a long history of support for workers to become owners or share in the profits and management of companies. "In 1919, the U.S. Bishops called for changes in ownership of industry; and, in 1986, they published a pastoral letter, specifically endorsing employee ownership."

Deacon Ortiz stated, "The CCHD supports efforts to improve the lives of individuals in our society and recognizes the benefits to individuals and society of broad-based employee ownership."

Corbin added, "The CCHD funds money for worker-owned enterprises, especially for low income and marginalized people. Employee-owned companies offer a chance at achieving wealth to many people who otherwise would never have that opportunity. We are pleased to be involved in this process and hope that our funding the CWRLF can facilitate the successful placement of loans to benefit employee-owners."

In addition to the grant from the National CCHD, the dioceses of Cleveland and Youngstown each contributed \$2,000 from their CCHD funds. Logue expressed gratitude for all the grants and especially "appreciates the interest the CCHD has in broadening and

deepening ownership of businesses by their employees and the confidence shown by the CCHD in the OEOC." Logue continued, "Bishop Malone of Youngstown was on the initial Board of Advisors of the then 'Northeast Ohio Employee Ownership Center,' and he started the CWRLF. Currently, Bishop A.J. Quinn of Cleveland serves on the Board of Advisors for the OEOC. We appreciate the longstanding and continuing support of the Catholic Church for employee ownership in Ohio and for the work of the Center."

Currently, the maximum loan that can be made by CWRLF is \$80,000 to any one borrower. With its partners, CWRLF has the ability to lend up to \$500,000 to a single borrower.

Employee-owned companies and buyout groups interested in applying for a loan, as well as individuals and organizations interested in making an investment in the fund, should contact the Loan Fund Coordinator, Bill McIntyre, at the OEOC at 330-672-3028 or by email at bmcinty2@kent.edu. **OAW**



The Catholic Campaign for Human Development (CCHD) United States Conference of Conference of Catholic Bishops invests in the CommonWealth Revolving Loan Fund: (l to r) John Logue, OEOC Director; Rocky Ortiz of CCHD, Diocese of Cleveland; Sister Alicia Alvarado, Sisters of St. Dominic of Akron; Brian Corbin of CCHD, Diocese of Youngstown; and Bill McIntyre of the OEOC.

Has your next Employee Owner Check-Up been scheduled yet?

Every employee owner goes through a life cycle, from the initial orientation to the final distribution; from understanding ESOP basics to mastering the skills to participate effectively under open book management. The Ohio Employee Ownership Center of Kent State University offers an annual Employee Owner Check-Up. We'll help you identify those employees reaching key ESOP milestones in the current year, and systematically provide them with the corresponding information and training.

***Don't let any of your employee owners fall through the cracks!
Call Dan Bell at 330-672-3028 for more details***

**Don't Forget to Mark Your Calendar for the
19th Annual Ohio Employee Ownership Conference
Friday, April 15th, 2005 Akron, Ohio**

18th Annual Ohio Employee Ownership Conference

Building An Economy That Works for All of Us

About 330 people attended the 18th Annual Ohio Employee Ownership Conference April 16th at the Hilton in Fairlawn, Ohio. After welcoming remarks from **Karen Conrad, Manager, Ohio Labor Management Cooperation Program** and **John Logue, OEOC Director, Kent State University President Carol Cartwright** introduced the keynote speaker, **Jim Parker, CEO of employee-owned Southwest Airlines**, who spoke on “Creating an Owner Mentality: How Southwest Airlines’ Culture Makes a Difference” (see pages 1-4). By emphasizing an ownership culture, open communications and training, Southwest has become a model for the rest of the airline industry.

Following Parker’s keynote, the morning round of discussions gave folks their choice of seven concurrent panels to attend. **ESOP-Minded CEOs** Riley Lochridge, ComDoc; Wayne Koepke, Voto Manufacturers Sales; Jeff Evans, The Will-Burt Company; and Dave Hein, The Chilcote Co. discussed their roles in an employee-owned company on a panel moderated by **Barbara Evans, Greater Akron Chamber of Commerce**. Those attending the panel discussion on **Selling Your Business to Your Employees** heard from **Mark Makulinski, Lockrey Manufacturing**, about using employee ownership as a succession plan. The **Employee Ownership Legal Update** was moderated by **Riesbeck Food Markets’ Ed Schmitt**. The panel on **Navigating the Repurchase Obligation** featured the actual experience of **Star Leasing Company** as presented by **Jeff Rosen**. **Workplace Safety** was the topic for a panel comprised of ESOP representatives **George Moore, The Mosser Group** and **Jeff Martin, The Will-Burt Company**. This panel, moderated by **Randy Leffler, Ohio Manufacturers’ Association** also featured **Christine Williams of the Ohio Bureau of Workers’ Compensation**. Consistent with the overall theme of the Conference, the panel on **Building an Economy that Works for All of Us**



featured keynoter **Jim Parker, Southwest Airlines**; **Lynsey Miller, Equal Exchange**; and **Republic Storage Systems’ CEO Jim Anderson**.

Lunch at the Conference this year was a bit different from previous ones. Lunch featured the presentation of the **2004 Ohio Employee Ownership Awards** to Ohio companies and individuals who demonstrated exceptional leadership in contributing to employee ownership. **Producers Service Corporation** received an award for **Ten Years of Creating Jobs and Wealth**. This oil field service company headquartered in Zanesville holds the Ohio record for wealth creation per year per employee—the median employee account for folks who bought the company 10 years ago is over \$250,000. **The Chilcote Company, Cleveland** was honored for **Twenty Years of Growing Jobs Through Employee Ownership**. This worldwide leader in photographic packaging products has also been recognized by **The ESOP Association** as both the **Ohio and the National Employee-Owned Company of the Year for 2004**. The company’s ESOP Committee Chair, **Mike Prokop**, was also named **Ohio’s 2004 Employee-Owner of the Year** by the **Ohio Chapter of the ESOP Association**.

In addition to the Awards, the lunch program this year featured a skit titled **Getting Your Piece of the Ownership Pie** as performed by **Madam E & the SOPs**. Cast members included **Marge Mellinger, Susan Norris, Ava Raybould and Sherry Whittington of Delta Systems, Inc.** And **Ted Dalheim** from **Marine Mechanical Corporation** was the lucky winner of two tickets on Southwest Airlines to anyplace in the continental United States.

The rest of the day featured panel discussions ranging from ESOP technical issues to the basics of cooperative enterprises. **ESOP Committee Success Stories** featured informative presentations from **Keith Hintze and Milton Ward,**

Concrete Technology; **Chris Aguilar and Lolly Mondak, R.J. Martin Electrical Contracting**; and **Jim Fuestal and Fred Sheets, Rable Machine**. The panel was moderated by **Annisia Grider, ACRT**. Folks attending the panel on **Building an Effective Board of Directors** found out what’s different about how the Board functions in an ESOP company from **Karl Reuther II, Reuther Mold and Manufacturing**; **Jim Ruhlin, The Ruhlin Company**; and **Deb Stottlemeyer, YSI, Inc.** **Employee Buyouts** featured presentations from **Dan Pottmeyer, Producers Service Company**, on a successful buyout and from **Robert Woodman, Oglebay Norton Employee Economic Empowerment Association** on the ongoing efforts of the sailors trying to buy ore boats on the Great Lakes. The panel on **The ABCs of Cooperatives** featured presentations by **Lynsey Miller, Equal Exchange**, and **Leslie Shaller, Casa Nueva**. This panel was moderated by **Martin Hall, Mid-America Cooperative Council**.

Opening the Books and Communicating Ownership Values gave people the opportunity to learn how different ESOP companies share business information. The panel consisted of **Wilma Summerfield and Dan Wargo, McDonald Steel**; **Jim Shaffer, Paul J. Ford and Company**; and **Barry Hoskins, The Antioch Company**. **John Habanek, The Great Lakes Construction Company**, served as the moderator. How three companies approach their shareholders’ meetings was the topic of the panel **A Look at Annual Shareholders’ Meetings**. This panel featured presentations from **Diane Bartlett, ACRT**; **Mary Pat Salomone, Marine Mechanical Corporation**; and **Beverly Kossum, The HDH Group**. The panel on **Union Issues** discussed things that unions deal with in a company where their members are employee owners. Panel participants included **Bill Bowes, PACE Local 673, Blue Ridge Paper Products** and **Adam Niemeyer and Chuck**



Hoover, Steelworkers Local 2345, Republic Storage Systems. Serving as the panel moderator was **Dennis Brommer, United Steelworkers District 1**.

Following the formal program for the day, the closing reception featured **Tim Ryan, Congressman from Ohio’s 17th District**. Ryan, a co-sponsor of the U.S. Employee Ownership Bank bill that is currently in committee, spoke on the need to revitalize manufacturing in Ohio. At the end of the day, our position as the best one-day ESOP conference in the country was safe once again! We thank everyone who made the conference the largest employee ownership event in the region and we look forward to seeing everyone next year at the **19th Annual Ohio Employee Ownership Conference** to be held **Friday, April 15, 2005. oaw**

Highlights from the conference (opposite page, l to r): Madame E & the SOPs perform their skit “Getting a Piece of the Ownership Pie,” from left, Susan Norris, Ava Raybould, Marge Mellinger, and Sherry Whittington of Delta Systems, Inc; John Banasek of GreatBanc Trust, U.S. Congressman Tim Ryan, Dan Wargo and Wilma Summerfield from McDonald Steel at the Closing Reception; Jim Parker of Southwest Airlines presents Theodore Dalheim of Marine Mechanical with two airline tickets good for a free trip to anywhere in the continental U.S.; (this page, r to l) Producers Services received an award for Ten Years of Creating Jobs and Wealth. From left, John Logue of the OEOC, Dan Pottmeyer, Dale Swingle, Debbie Anderson, Mike Armstrong, Charlie Conrad, Kelly Hartman, Jim Rose, and Keith Flexter from Producers Service; An overflow crowd at the conference plenary sessions; Mike Kelley, Mike Prokop, Dave Hein, Bob Marn, and Brian Hrdlicka of The Chilcote Company were on hand to receive an award for Twenty Years of Growing Jobs Through Employee Ownership.

Ohio's Employee-Owned Network News

Chilcote Sweeps Awards

Mike Prokop, Chair of the ESOP Education Committee of the Chilcote Company in Cleveland, is **Ohio's Employee Owner of the Year for 2004**. Through his leadership, the committee's role was revitalized to include a year-round calendar of company-wide informational and educational events—including Certificate Days with an educational Chilcote Feud game; Ima Participant Day in which departments compete based on their ESOP knowledge; a Guess the Value Contest at the Annual Meeting; and, the Taste of Chilcote luncheon featuring ethnic foods shared by the firm's globally diverse workforce. He was also active in promoting ESOPs, spoke at ESOP conferences, reached out to local community and political leaders, and organized the first annual Ohio ESOP inter-company golf event. He is the Sales Coordinator for the Telemarketing Department of Chilcote's Taprell Loomis division with eight years of service at the Cleveland firm. **OAW**

The Chilcote Company, headquartered in Cleveland, is the **2004 National Employee Owned Company of the Year** and this year celebrates 20 years of employee ownership. The company is a worldwide leader in photographic packaging products. The ESOP was established to blend a succession planning strategy with employee involvement to grow the business. The transition to employee ownership and open management has paid big dividends to employees, the company, and the Cleveland community. The stock value has increased more than five fold since the ESOP was adopted, they have acquired other companies in Ohio and nationwide, and have added valuable manufacturing jobs in Cleveland's inner-city. Chilcote is a leader within the Cleveland business community and the employee-owned business community nationally. Company leaders take active leadership roles in The ESOP Association and encourage ESOPs among their customers. **OAW**



Chilcote Company employee-owners accept the National Employee-Owned Company of the Year Award in Washington D.C. from Michael Keeling, TEA President. Pictured l to r: Mike Prokop, 2004 Ohio Employee-Owner of the Year; Bob Marn, Mike Kelley, Marilyn Biela and Pauline Armendariz of the D. Davis Kenny Company (a division of Chilcote) and Michael Keeling



YSI Wins Group Excellence Award

Award-winning YSI, located in Yellow Springs, received the 2004 Group Excellence Award of the Ohio Chapter of The ESOP Association, for its employee ownership committee. "Our mission is to help foster ownership as a core value of our culture," explained new committee chair Danielle Dumont at a recent company-to-company visit. "We are not an ESOP committee, though we educate about the ESOP." The committee publishes a newsletter that focuses on the value of ownership and people at YSI; organizes an employee orientation; and sponsors educational games and other events with a focus on building awareness of ownership values. Front row: David Garigen, Danielle Dumont, Mary Alice Waggoner, Deb Stottlmyer, Tom Biggs; Back row: Mary Schaeffer, Jennifer Phillips, Elisabeth DeForest, Susan Miller, Dianna Tillman.



The ESOP Association's 12th Annual Employee Owner Retreat

The **Employee Owner Retreat** is a three-day, off-site training seminar where *non*-managerial employee owners learn from and interact with their peers from other ESOP companies. In small groups, structured exercises, and informal discussions, participants develop new skills and a new perspective on employee ownership at their respective companies.

WHO SHOULD ATTEND?

While any employee owner is welcome, the program is designed primarily to give hourly and salaried **nonmanagerial** employees an opportunity to learn *with* and *from* their peers. Typically these come from outstanding ESOP companies, both service and manufacturing, where developing a culture of ownership is considered an important aspect of corporate success. Participants are often members of the board of directors, ESOP committees, problemsolving teams, company trainers, or informal nonmanagerial leaders. *Sending 2 to 4 co-employees raises the effectiveness in bringing the learning back.*

Do you want your firm's employee owners to:

- ... Recharge their enthusiasm
- ... Meet other employee owners
- ... Participate more effectively
- ... Better understand ownership



*They can do all this and more at the **ESOP Association's 12th Annual***

EMPLOYEE OWNER RETREAT

August 5-7, 2004

Chicago Area

(25 minutes from O'Hare and Midway International Airports)

*Training conducted by the **Ohio Employee Ownership Center***

***For more information, including registration details and form,
download the complete flyer at <http://www.kent.edu/oeoc/2004teaeor.pdf>***

POSITION AVAILABLE: PRESIDENT/CEO

A 100% employee-owned, mid-size southern Ohio company founded in 1948, a leading manufacturer of stock and custom-molded plastic parts, electronic and electro-mechanical timers, plastic drinkware, and specialized fasteners, is actively seeking a President/CEO to aggressively meet the challenges of a highly competitive and evolving market.

The candidate will be responsible for profitably growing the Company through expanding its business with existing customers; developing new customers; developing and introducing new products and/or extensions of existing lines of products; and making acquisitions or entering into joint ventures that support existing business. The candidate will also be accountable for the development and implementation of strategic and operational plans to accomplish these objectives. Most important, the candidate must be able to work effectively in a unique environment of dedicated employee-owners and a mature union/management relationship.

The ideal candidate will be a highly experienced, collaborative professional with: (1) proven manufacturing expertise, preferably in the plastics industry; (2) demonstrated sales and marketing experience; (3) past success in integrating new acquisitions, as well as developing and launching new products; (4) engineering and financial experience; (5) established commitment to employee empowerment; and (6) a proven ability to manage, motivate and communicate with a mature workforce of top-notch union-represented employees. The opportunity requires a Bachelor's degree or equivalent work experience (an MBA degree and financial experience is an advantage), along with 15-20+ years of progressively responsible manufacturing experience.

Ohio's Employee-Owned Network

2004 Upcoming Events

CEO and CFO Networking Dinner

Join peers at this get-together hosted by Riley Lochridge and Steve Owen of ComDoc, Inc. to build inter-company relations among ESOP firms.

Firestone Country Club, Akron
Tuesday, September 14

ESOP Fiduciary Workshop

A session for trustees, ESOP administration committees, and Directors.

December 8, Kent

ESOP Administration Forum

An update on relevant legal, administrative, and tax concerns for ESOPs.

November 11, Dayton
December 9, Kent

ESOP Communication Forum: Building an Ownership Culture
November 10, Dayton

Employee Owners'

"Thinking Like an Owner" Retreat

September 16-18

Atwood Lake Conference Center

Provides a basic orientation to ESOPs, understanding business financials, and the roles of employee owners.

Leaders' Forum

October 21 - 22, NE Ohio location TBA

A forum for those in operational leadership roles on communicating the facts about ESOPs, the values of ownership and business performance goals which promote involvement.

*For more information or to register
for Network programs, contact Karen
Thomas at 330-672-3028 or
oeoc@kent.edu*

*Ohio's Employee-Owned Network's Mission is
to provide a forum for those working at all
levels in employee-owned businesses to learn
from each other how to make employee
ownership work more effectively at their firms;
to organize networking opportunities,
roundtables, and training sessions which
address the unique challenges of ESOPs.*

Basics of Business Retreat

November 18-19, 2004 Chicago

Sponsored by the National Center for Employee Ownership and the Ohio Employee Ownership Center

The OEOC's newest education program for non-managerial employee owners and others responsible for employee owner education.

Learn how a business works and how to educate others about how a business works, and what it means to be an owner. Explore key economic and business concepts, how businesses measure productivity and performance, managing assets, growing sales and understanding the factors that drive stock value.

More information? Contact Dan Bell at dbell@kent.edu

*In Memoriam***Dave Scott**

David W. Scott, President and CEO of the Dimco-Gray Company, passed away on March 13, 2004. Many who have benefited from his leadership, both at Dimco-Gray and among the members of Ohio's Employee Owned Network, will miss him as a colleague and friend.

A native of Ellwood City, PA, Scott received his MBA from the University of Pittsburgh in 1974. In 1996, he joined 100% employee owned Dimco-Gray. Dimco-Gray was one of the original founders of Ohio's Employee Owned Network in 1989. Scott continued this tradition of service to the employee ownership community, serving for many years as Co-chair of the Advisory Board and Executive Committee of the Ohio Employee Ownership Center.

"Dave was always available to help spread the word about what employee ownership could be. Just last October at the Buckeye Labor Management Conference, he amazed an audience of non-employee owners from both the private and public sectors with his description of how open book management is practiced at Dimco-Gray," recalls Dan Bell, OEOC Senior Program Coordinator. "Several people were hoping he would pass out employment applications!"

A few excerpts from the eulogy given by his good friend and fellow employee owner, Jim Daulton, does the best job expressing what many of us feel:

Several years ago Dimco-Gray made a decision to change the strategic direction and become a company focused on

growth and increased shareholder value. This decision included finding a special President/CEO to lead us in that mission... a person with a strong financial background; a person with an entrepreneurial spirit, a person with a genuine passion for people; and a person with an ability to achieve these goals in a unique ESOP/union environment—a near impossible task! Dave Scott was that person in every aspect. He had the ability to creatively think outside the box and make decisions that supported both the people and the business's interests alike... Even if you disagreed with a decision, Dave had the ability to make you walk away feeling good about it anyway.



Dave's optimism was unmatched... and he helped everyone that he worked with find that positive view as well. Dave Scott was a great man; a great leader; one of a kind. He led our company, not "head first," but "heart first."... Dave became more than "just a boss" to many of us, he became our friend, our advisor, and to some of us, our golf buddy... His leadership and teaching instilled knowledge and confidence in each of us. He was proud that we could carry on, even in

his absence. He made us all into true employee-owners.

We don't understand why Dave was called home so early, but, because of the values he instilled in each of us, Dave will be with Dimco-Gray forever.

Scott is survived by his wife Sheila, sons Sean and Ryan, brothers George, James, and Richard, and sister Susan Bertagna. **OAW**

OEOC Establishes Professional Memberships

For many years, our friends among ESOP service providers have responded to our several annual appeals and supported the OEOC and its activities with newsletter and conference program ads, attendance and participation in the annual conference, participation in training programs and purchases of our publications. We now invite them to become professional members of the OEOC, to share in our success and the growing reach of our technical assistance and training programs. *Owners at Work's* mail circulation has reached 12,000 and continues to climb, and our programs are increasingly reaching a national clientele.

Professional membership is \$150 per firm. Professional members are listed on the OEOC website (www.kent.edu/oec) by area of expertise, company name, and individual member's name with direct links to their websites. They receive discounts on conference registration fees, newsletter and conference program ads, and OEOC publications. If you are an ESOP professional, join and take part in the OEOC's activities!

We invite ESOP service providers who work in Ohio to join us as professional members. For information, contact Bill McIntyre at 330-672-3028 or bmcinty2@kent.edu.

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OEOC

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UPCOMING NETWORK EVENTS – 2004

CEO and CFO Networking Dinner

Tuesday, September 14 Firestone Country Club, Akron, OH

ESOP Fiduciary Workshop

December 8 Kent

ESOP Administration Forum

November 11 Dayton

December 9 Kent

ESOP Communication and Education

November 10 Dayton

Employee Owners' "Thinking Like an Owner" Retreat

September 16-18 Atwood Lake Conference Center

Leaders' Forum

October 21 - 22 NE Ohio

See page 16 for details on these programs

**Don't Forget to Mark Your
Calendar for the
19th Annual**

**Ohio Employee Ownership Conference
Friday, April 15th, 2005, Akron, Ohio**

OTHER EVENTS OF INTEREST

ESOP Association (staffed by the OEOC)

Employee Owner Retreat

Downers Grove, Illinois, August 5-7, Doubletree Guest Suites
www.esopassociation.org

National Center for Employee Ownership

Get the Most Out of Your ESOP: Tenth Annual Interactive Conference for ESOP Companies

St. Louis, MO, October 4-6, Radisson Hotel & Suites Downtown
www.nceo.org

ESOP Association—Ohio Kentucky Chapter

15th Annual Fall ESOP Conference

Reynoldsburg, OH, October 6th, Grande Host East
(440) 989-1552 for details

ESOP Association

14th Annual Two Day Conference

Las Vegas, NV, November 4-5 Bellagio Hotel
www.esopassociation.org

Preliminary Feasibility Grants

The Ohio Employee Ownership Center (OEOC) administers the Ohio Department of Job & Family Services preliminary feasibility grant program. This program is designed to provide financial assistance for groups who are interested in contracting a study to explore employee ownership as a means to avert a facility shut down. For more information, please contact the OEOC at 330-672-3028 or oeoc@kent.edu.

Visit our website: www.kent.edu/oeoc