

OWNERS AT WORK

Ohio Employee Ownership Center

Volume XVII No. 1

Summer 2005

Fastener Industries 25 Years of Stability and Prosperity

At a time when Ohio companies are closing and the state has lost over 16% of its manufacturing jobs since the start of the recession in March 2001, 100% employee-owned Fastener Industries is celebrating 100 years in business and 25 years of employee ownership, with more than 20 years of profitability and growth since the ESOP was created. Headquartered in Berea, the firm's 200 employee-owners produce high quality weld fasteners, levelers, replacement parts for industrial lift trucks, and rivets.



Sixteen of the original employee owners of Fastener Industries at their 2005 Annual Shareholders meeting. From L to R, Dick Templeton, Forrest Franklin, Debi Stewart, Jim Zidek, Bob Nelson, Al Medlin, Glenn Pijor, Joe Smith, Hank Provost, Ralph Stawicki, Karen Richmond, Rich Bryda, Bernie Fox, Dale Zelinski, Fred Kroupa, and Gene Osler

"We are proud of our 25 years of employee ownership and financial success", said current President Pat Finnegan. "Twenty-five years is a long time. Only 17 of the original employee shareholders still work here. Employee ownership fits us like a comfortable set of clothes now. We've been fortunate to have a good business model and we do our best everyday."

The company has paid stock dividends for the past 22 years. Regular profit sharing bonuses equal at least one month's pay. The firm's average

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New Tax Hits Ohio S-Corp ESOPs

A budget bill recently passed by the Ohio Legislature and signed by Governor Bob Taft will impose new taxes on S-Corp ESOP companies.

The stated intent of the Ohio tax reform was to simplify a rather complicated tax structure, lower the tax rate and broaden the base of businesses subject to taxes. The plan will eliminate both the tangible personal property tax and the corporation franchise tax and replace them with a new "Commercial Activity Tax," also called CAT, of 0.26% of a company's gross receipts.

The CAT, the centerpiece of the Governor's reform proposal, is to be phased in over 5 years as the other taxes noted above are being phased out. It is to be levied on companies regardless of their form of organization, whether they are C-Corp, S-Corp, Limited Liability Corporation, partnership or sole proprietorship. Attempts by various groups and companies to se-

cure an exemption for S-Corp ESOPs were not successful. Although S-Corp ESOPs were not previously subject to the old taxes, they must now pay the CAT, effectively increasing their tax burden. Non-S-Corp ESOPs, on the other hand, should see their tax exposure diminish somewhat under the new system.

Over the course of the last year, S corporations have faced the threat of similar tax increases in Kentucky and Pennsylvania, but they fared better there than in Ohio. Both states exempted S-Corp ESOPs from increased taxes.

While the overall objective of tax reform was to make Ohio a more attractive place to do business and to attract new companies, jobs and investment, S-Corp ESOPs will not benefit, but will instead have to deal with a new cost of doing business. Whether S-Corp or C-Corp, Ohio employee-owned companies should obtain legal advice to insure proper compliance with the new tax law. **OAW**

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stock appreciation is over 10% annually from 1980 to 2003. Total return on stock including dividends has averaged over 13% annually. The company has grown through two acquisitions, one in 1987 and another in 1998. The employees of both firms were added to the ESOP in their first year with Fastener.

Incorporated as the Ohio Nut & Bolt Company in 1905, the firm was operated by the Whelan family since 1928. Reorganized under the Fastener Industries name in 1964, a profit sharing plan was instituted to encourage employee involvement in the business. Two operating divisions, Ohio Nut & Bolt in Berea and Modern Fastener, formed in 1965, manufacture high-volume cold-formed resistance weld fasteners. Buckeye Fasteners and Ohio Nut & Bolt of Canada are wholly-owned subsidiaries which, along with three small out-of-state warehouses, form the distribution network for the Fastener products. Joseph Industries, a subsidiary in Streetsboro, is a re-manufacturer and distributor of parts for lift trucks and off-road equipment. Brainard Rivet, a subsidiary in Girard, produces cold-formed solid rivets and clevis pins.

The Employee Buyout

In 1979 the third generation owners of the Whelan family sought a management buyout. Rich Biernacki, the company's treasurer, knew about ESOPs and got everyone involved. The employees were given the choice of investing their own retirement accounts in the profit-sharing plan into the ESOP. Most of them, about 85% voted in; the 15% who stayed out of the proposed rollover were employees who were nearing retirement.

The employee purchase of the entire operation came together in 1980, with the employees of Fastener risking \$3 million of their own retirement money. \$1 million of company cash was used, and an ESOP loan of \$4 million leveraged the assets of the company.

Democratic Governance

An open nomination and election process is conducted every two years for all the seats on the Board of Directors. Any individual who gets ten signatures on a nominating petition is eligible to be placed on the ballot. Shareholders vote on a one share-one vote basis. "Having a vote and giving dividends is very tangible employee involvement," explained Finnegan, "and really drives home the concept of ownership."

Typically 10-18 candidates run for the five-member board. Atypically among ESOPs, the CEO must run for his or her seat on the board. While employees show widespread interest in the

board elections, controversial elections are a rarity and membership tends to be stable over time. Fastener folks like to joke that their board is just like Congress, i.e. "once you get elected, you're in."

Forrest Franklin manages the Computer Department and has been a member of the Board of Directors since 1997. "I started here in 1965. When we became a 100% ESOP it was a little unsettling because our retirement was tied directly to the company. I could not have invested in stock as I was raising a family. The ESOP gave me that opportunity. Being an accountant, I understood what ownership meant quicker than many; if we worked together, we would share in that success in dividends and share value. After a few years of education by management, most employees understood they were true owners.

Financial statements are distributed quarterly, and if they come out a little late once in a while, all kinds of people are questioning why they aren't being distributed."

"It has been an honor to serve on the Board of Directors,"

added Franklin, "something I would never have thought possible before the buyout. Most issues get to the board through the management process, but any employee can bring an issue or an idea to the board. Everyone dreams of accumulating wealth and retiring. Our ESOP company has allowed that to happen for the employees here and for those who will follow when we retire."

The ESOP Empowers Employees

"For us, employee ownership is a mindset," said Finnegan. Employees are 100% vested in the ESOP after 30 days on the job. The company contributes the equivalent of 15% of wages in stock to the ESOP each year, which is allocated to active employees' accounts in the trust. In addition to the ESOP, Fastener sponsors a 401 (k) and a 401 (m) Voluntary Contribution Fund, which is an employee-directed retirement plan.

Employee development is important and the company's workforce and management are mostly homegrown. Fastener offers opportunities for tuition reimbursement of up to \$2,500 annually and promotes from within. For example, employee-owner Tim Morgan's dad worked at Fastener. Tim started out as a courier, then worked in packaging at Buckeye, as a machine operator at Modern, then in engineering, and next in management at Modern. Now he is the plant manager at Ohio Nut and Bolt.

Financial information is shared company-wide through monthly postings, quarterly plantwide meetings for each shift, and the annual shareholders' meeting. Brainard Rivet holds monthly operations meetings with all employee-owners to keep them informed on financial performance, projections for the

The **OHIO EMPLOYEE OWNERSHIP CENTER** (EOEC) 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 EOEC 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.

The EOEC is funded by grants from the Ohio Department of Development's Office of Labor/Management Cooperation, the Ohio Department of Job and Family Services, the Nationwide Foundation, the Ford Foundation, and the United States Department of Labor as well as contributions from Kent State University, *Friends of the Center*, and the companies that comprise Ohio's Employee-Owned Network. **Address:** EOEC, 113 McGilvrey Hall, Kent State University, Kent, Ohio 44242. **Tel:** (330) 672-3028 **Fax:** (330) 672-4063 **email:** eoec@kent.edu **website:** <http://www.kent.edu/eoec>

Owners At Work (ISSN 1046-5049) is published twice a year by the EOEC. Editor: Jacquelyn Yates (yates@salem.kent.edu). Copyright © Ohio Employee Ownership Center of Kent State University. Letters, articles, requests for permission to reprint and subscriptions (which are free) should be sent to the editor. **Owners At Work** is funded in part by the **Ohio Department of Development Labor-Management Cooperation Program**.



coming months, and review of capital purchases and potential new customers.

Joseph sponsored a "Brown Bag Lunch" series of presentations with Q&A for on-going education on the business, the ESOP, and understanding the financials; speakers included the company's officers, directors and managers. Talks and topics included a Financial Summer School and adventures in learning the business with "Ernest ESOP", a computer-generated character who responds to employees' questions.

"Communication is key," explained Finnegan. "New employees need a basic knowledge of the history of the company and how the ESOP developed. Suggestions should be encouraged and every one replied to. We are not as formalized in our employee involvement as other ESOPs. Management must be accessible for questions and suggestions."

Employees are the experts on their jobs, explained Morgan. "The majority of the improvements we implement out in the shop come directly from employees' suggestions and ideas."

Ten-year employee Wayne Corman, who works in the Drill and Tap Department, said "You feel like you want to be involved here. Information flows to us through the weekly managers' meetings and Pat comes around too. Everybody comes to work everyday, even on nice days. We cross train on jobs."

Newcomer Mark Frank, an employee with five years of service in engineering and tooling design, commented, "It's great that we have open books so we get the accounting perspective on how the business is doing."

"We are an employee-centered company," explained company treasurer Linda Kerekcs. "We work for ourselves. Our company's policies reflect this." Fastener has a 35 hour work week, and employees can choose the option of working a longer four-day per week shift during the summer. Fastener has not had layoffs, but it has let attrition take effect. The average seniority is 14-16 years.

The Cycle of ESOP Enthusiasm

Employees' enthusiasm about participation in the ESOP varies with their years of service, Finnegan has noticed. New employees are initially excited about stock ownership but often become a bit disillusioned after a few years when they don't see as much stock in their ESOP accounts as some of the older employees have. The dawn of understanding occurs after about 10-15 years of service when employees begin to see real growth in the value of their ESOP account. In years 16-20 they feel happy; in years 21-40 they feel very happy. Anybody with 35 years in the ESOP is ecstatic. "The ESOP is designed to deliver value at the end of their work career, not at beginning," he explained. "It's a retirement plan and takes time to build up."

As newcomer Frank recalled, "when I started here the guys told me all I owned was the air in the tires of the delivery truck. So I told them 'Hey, that's fine, I'll take it with me when I go.'"

Retiree Nest Egg and Involvement

Today Fastener is 37% retiree-owned. While some current

employees question that retirees own a significant stake, most employees appreciate the personal risk that the retirees took back in 1980 when they voluntarily put all their profit sharing "eggs" into the ESOP basket and worked hard to build the successful company that all employees are now enjoying.

While many ESOPs require employees to cash out their ESOP stock when they retire, Fastener does not. Fastener retirees can choose to elect an immediate cash distribution upon retirement or to leave their stock in the plan and elect a distribution later. The typical retiree has \$400,000-\$600,000 in the ESOP account. Though retirees do not get any more shares, they continue to earn healthy dividends of around 4%, as do the active employees. Retiree investors also continue to vote their shares.

"We question whether we are doing too much for retirees," noted Finnegan. "Back when we started we were mainly con-



(L to R) Brad Whitehead, Director of the Cleveland Foundation, and Dr. Stephen Gage, President & CEO of CAMP, Inc. visit with Mark Blasik and Tim Morgan on the shop floor of Fastener Industries. Whitehead and Gage were visiting Fastener to see an example of a model employee-owned company.

cerned about survival. Now we are concerned about how to divide up our profits. The rewards for owners are different from the rewards for employees. Now we ask ourselves: should the profits go to owners in dividends or to employees in pay and benefits?

Repurchase Obligation

A big worry among ESOP companies is the need to have sufficient cash at the ready to repurchase the stock when people are ready to sell the shares in their trust accounts. Like other successful ESOPs, Fasteners' repurchase obligation increases as more shares are contributed to the trust each year and the business grows in value. The company tries to keep debt low in order to have the capacity to borrow the needed cash, and it has also set money aside for future repurchases.

Bringing in New Employees

Fastener brings new employees into the ESOP as investors right away. Each year the company contributes stock, which is allocated to current employees' accounts in the ESOP. The num-

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Fastener Industries (Continued from page 3)

ber of shares outstanding fluctuates as the company also buys back shares every year from employees who leave or elect to diversify or cash out their shares.

This approach addresses the common problem among most ESOP firms after their ESOP loan is paid off—how to get shares in the hands of new employees. One drawback of this solution is the dilution of share values when the company repurchases fewer shares than it contributes to the ESOP.

Bringing in New Acquisitions

Since becoming employee-owned, Fastener has bought two other companies, Joseph Industries in Streetsboro and Brainard Rivet in Girard. Employees of both firms became participants in Fastener's ESOP.

In 1987 Fastener purchased Joseph Industries from founder Harold Joseph, and Joseph began life as a 100% employee-owned business. They are the largest industrial torque converter remanufacturer in North America and a worldwide distributor of industrial aftermarket parts serving the lift truck and construction equipment industries.

About 25 employees stayed on after the purchase and these employees were soon enrolled in the stock ownership plan, with a separate pay scale and other benefits which fit their operations. Entry-level wages were raised for some and health care coverage and other benefits were tailored to Joseph's operations.

Brainard Rivet Joins the Fastener Family

In 1998 Fastener purchased Brainard Rivet from the Camcar Division of Textron, following a determined effort by employees to save the business, which was shut down in 1997. Founded in 1916, Brainard produces fasteners in a wide range of sizes through a process called cold-heading. Products include standard and custom small and large rivets, shoulder rivets, clevis pins and special shaved pins for the automotive/truck, general metalworking, furniture, and railroad industries.

"We saw them as a good opportunity because of the people involved. These guys deserve to be owners," said Finnegan in a 1998 article about the purchase. "Moreover, there's real synergy

between us and Brainard. We run similar equipment; there are things we can learn from each other. We'll both come out better than we were before."

The new Brainard Rivet started from scratch without any backlog of orders and hired from the pool of former employees who had worked under a USWA contract. To offset the 20-35% wage concessions that were necessary to reopen the company, they have their own profit-sharing plan for everyone. Today the business has 32 employees.

"All of our customers and prospective customers find the concept of an employee owned company very attractive," said Judy Volpe, General Manager. "They can easily see how this type of ownership arrangement provides an incentive for employees to strive for total customer satisfaction."

"As a manager, I find the employee ownership structure makes it easier to discuss strategies necessary to stay competitive in today's dynamic marketplace. I am able to discuss costs and how each decision and action we take affects our profitability, our future business and the value of our stock."

ESOP Committee has Fiduciary Role

A five-member ESOP Committee is the administrative and controlling body responsible for minding the ESOP. The Board of Directors appoints the members from different plant locations. Committee members may not serve on the Board. The committee meets monthly for one hour.

The committee's work is divided among all members. Ralph Stawicki, the credit manager with Ohio Nut & Bolt, develops the agenda collaboratively with all members, convenes the meetings, and serves as the committee's liaison to the Board of Directors. Larry Kelley, a sales manager at Buckeye Fasteners, handles all distribution paperwork and meets with ESOP participants to discuss their exit strategies. Linda Kerekes, company treasurer, handles all accounting functions. Both Kelly and Kerekes serve as liaisons with the ESOP trustee in Chicago. Debi Kozak, a buyer at Joseph Industries, manages the elections of the Board of Directors. Tom Calton, an assistant plant manager of Modern Fasteners, manages ESOP beneficiary forms and produces the ESOP Committee's newsletter.

Each eligible employee has access to company-paid financial



The Fastener Industries contingent to the 19th Annual Ohio Employee Ownership Conference, where they received the **25 Years of Employee Ownership, Stability and Prosperity** award. From L to R, Debi Kozak, Debora Kiser, Greg Hannah, James Elliott, Erik Adams, Sue Croft, Pat Finnegan, Clint Moats Jr., Rich Bryda, Sandra Melendez (in front), John Lawler, Forrest Franklin, Linda Kerekes, Bob Nelson, Ron Foreman. More highlights from the Conference can be found on pages 12-13 of this newsletter.

planning assistance. The Personal Financial Planning Program is coordinated by committee member Larry Kelly.

Kerekes developed a "Nuts and Bolts of ESOP Plan Administration" handbook a few years ago. She and other committee members have used the text to teach workshops for ESOP fiduciaries.

Leadership and Service for ESOPs

"Fastener makes a sizable contribution of leadership and service to the employee-owned business community," noted Karen Thomas of the OEOC. Former FI president Rich Biernacki served as national chair of The ESOP Association, the trade association for ESOP companies. Others have served as officers and advisors within the state chapter. The firm was a founding member of Ohio's Employee-Owned Network.

All employee-owners are encouraged to participate in ESOP seminars, Employee Owner Retreats, and conferences, and often give presentations at conferences and workshops. "Everyone I have met from Fastener, whether in management, sales, office or shop," Thomas added, "shares their knowledge and encouragement of employee ownership with others."

Quality and Integrity

Fastener has earned ISO and QS certifications in manufacturing and distribution operations. In 1991 the firm won the Global Award for Value-Based Management from the Center for

Economic and Social Justice of Washington D.C. In 2002, the firm won a Business Ethics Award from *Business Ethics Magazine* for its commitment to democratic governance and employee ownership. Just a few weeks ago Fastener won the 2005 Manny Award, from *Inside Business* magazine, for the "Best Place to Work" in firms under \$50 million in Northeast Ohio.

Factors of Success

During a recent company visit by local economic development officials, Finnegan emphasized, "Our business



Getting the job done right: Fastner's Bob Sharick sets up a machine

model is a good one. We serve a small niche in the fastener market and sell mainly in the U.S. and Canada. Our volume does not interest the Chinese. We are not the lowest cost producer. We sell on our quality and availability."

"We are slow and steady in our growth, and we provide stability. We got into weld fasteners in 1928 when Henry Ford was looking for a faster way to install bumpers on cars but today only 20% of our business is automotive."

"Employee ownership does help our business.

An ESOP means lots of

little things are done better on the shop floor everyday. ESOPs make a good business better."

While other firms export jobs overseas, Fastener Industries has invested in its operations and employees here in Ohio. Employee-owners understand they are working for their families and the community in which they live. **OAW**

A Life Ended Too Soon—Jan Stackhouse

The life of Jan Stackhouse, 52, an early and effective proponent of employee ownership in the state of New York, came to a violent and premature end May 1, 2005 in the quiet New England town of Stockbridge, Massachusetts. Her death has been ruled a homicide, the first in this town of 1,900 since 1969. A longtime resident of Brooklyn, she was visiting friends in Stockbridge, a trip she made several times a year. She had gone for a walk alone when she was killed. Her murder is still unsolved.

At the time of her death, Ms. Stackhouse was the Director of the Membership and Dues Department for Local 1199 of the Service Employees International Union in New York City. Her experiences in the labor movement began when she joined the Amalgamated Clothing and Textile Workers of America back in the mid-1970's. She had an enormous respect for hardworking Americans. Described as a tireless and



dedicated advocate for working people, her interest in the union movement led her to become deeply involved with employee ownership in New York, particularly with succession planning issues.

During the 1980's, Ms. Stackhouse served first as Assistant Director and then as Director of the Center for Employee Ownership and Participation, an arm of the New York State Department of Economic Development, which targeted companies at risk of closing because of a lack of succession planning. "It's not a small thing to start a business and run it for 40 years," said Ms. Stackhouse, "We just want to make sure that those businesses never shut down."

The New York program was one of the few state-funded employee ownership centers like the OEOC. Her impact on employee ownership in New York and the country has been considerable; she will be missed. **OAW**

Training and Involvement Pay Off in Improved Operations and Profits

Training employees and expanding shopfloor participation are the best route to improved company operations and profitability, according to early data collected from an ongoing census of all Ohio ESOPs. Nonetheless, the early data shows that nearly one-sixth of reporting firms offer little more than traditional job training, informal job training and basic skills training, and about a quarter offer little more employee participation than new employee orientation and the suggestion box.

Figure 1 illustrates how increasing the scope and extent of training accompanies improved business performance, as measured by being in the top fourth on quantitative and qualitative measures, as well as improving profits relative to other companies in the industry. Quantitative performance measures included absenteeism, turnover, productivity, product quality, profitability, costs of production and customer service. Qualitative measures encompassed manager-worker communication, worker job satisfaction, motivation, working conditions, employee participation, labor-management relations and employee attitudes. Relative profit position was measured by comparing the firm's profitability position in the industry before the ESOP (or 10 years ago for older ESOPs) with its profitability now.

Figure 2 illustrates the impact of added employee involvement.

To date, 69 Ohio ESOP companies responded with nearly complete data. Respondents were mostly company presidents, CEOs and CFOs. Early respondents tend to be companies where satisfaction with employee ownership is widespread and the business is enjoying success.

Profile of Respondents

Of responding ESOP companies, 46% are in manufacturing, and 10% are in construction, with the rest distributed over various areas, including banking, insurance, energy, wholesaling and retailing.

They employ over 25,000 in all, and range in size from 19 employees to 5600, with a median of 152. Seventy-two percent of those employees are ESOP participants.

Total sales at the companies amounted to over \$4 billion per year, and individual companies ranged from \$3 million to \$500 million with a median of \$25 million.

94% of the companies were closely held and the rest, publicly traded. A little more than a third (36%) used the tax-advantaged S Corporation (which is typically used with 100% employee ownership), with the remainder being C Corporations.

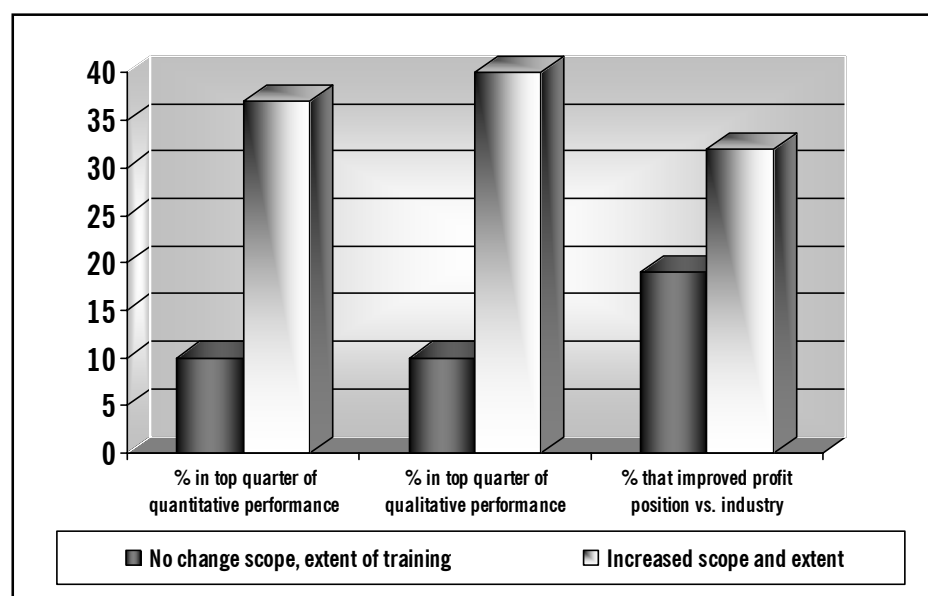
Thirty-three companies were majority owned and one more

expected to become majority owned within five years.

Fourteen companies, about 20% of all, reported that they were unionized, and about half included union members in the ESOP.

There are both old and young ESOPs among the responding firms, with the date of establishment ranging from 1972 to 2003. The median establishment year was 1988.

Figure 1. Increasing the scope and extent of training and improved business performance



Creating the ESOP

Despite the conventional wisdom that most employee buy-outs are caused by distress, only two companies reported that avoiding shutdown or job loss was a reason for creating the ESOP. Only 11 companies (about one-sixth) reported that employees or managers made any concessions to create the ESOP, and most ESOPs (79%) did not absorb the assets of another retirement plan.

The most common reason for creating ESOP was ownership succession: About two-thirds of firms cited a retiring owner as a major or minor reason for establishing the ESOP, and an additional 10% noted similar reasons, such as succession planning, the family's desire to leave the business, or the death of an owner.

Other notable reasons were a philosophical commitment to employee ownership (54%), desire to provide an additional benefit for employees (48%), desire for participative management (17%), and reducing borrowing costs (17%). Companies could check more than one reason.

About half of the respondents (49%) had an unleveraged ESOP, and about half had a leveraged ESOP. Thirteen percent

used a 401(k) stock ownership plan (KSOP), and 4% had a stock bonus plan. Thirty companies (43%) offered more than one form of employee ownership, including stock purchase plans, stock options, matching 401k contributions with company stock, and stock awards. Three firms volunteered that their ESOP was "dormant" or "frozen," which may mean that the firm is no longer actively contributing to it.

Nearly all companies (97%) used W-2 earnings as basis for contributions to the ESOP, while 3% made contributions on an equal basis. A number supplemented these with other methods as well, including hours worked (6%), earnings adjusted in various ways (5%), seniority (3%), or a combination of methods (2%). Two-thirds used step vesting over 5 to 7 years. Only 3% offered immediate vesting.

ESOP Assets and Beneficiaries

The reported value of the ESOPs ranged from \$40,000 to \$260 million, with a median of \$4 million. In value per participant, ESOPs ranged from \$1,299 to \$600,000, with a median value of \$30,000. The vast range of values can be attributed in part to different contribution rates. Company contributions

companies had reduced communication, but about 40% had not changed the number of communication techniques since they became an ESOP (or in the last 10 years). However, one might reason that with two-thirds of respondents reporting their ESOP more than 10 years old, the occasion is largely past for large-scale changes in communication to gain the ESOP advantage. Surprisingly, older (formed before 1993) and newer ESOPs were quite similar in adding communication, except that the three companies that made dramatic changes (adding 8 or more communication techniques) were all older ESOPs.

Communicating financial information is an important ingredient of helping employees to connect the value of their stock in the ESOP with their work. Publicly traded companies must report their financial performance to stockholders, and the four in the data made no extra effort to communicate financials to their employee-owners. Although closely held companies can choose to operate with less transparency than public companies, nearly half (46%) of them stated that they provided financial information to the employees, and nearly one-sixth (17%) more stated that the information was available on request.

Like communication, overall training has increased slightly since the responding companies became ESOPs or in the last 10 years. The median company added just one type of training since becoming an ESOP (or in the last 10 years for older ESOPs). The typical company in the survey was already using five or six types of training, and two thirds were using financial and ownership training or both, which earlier research has indicated are essential for showing employees how doing their jobs well relates to the company's economic performance and the value of their ESOP accounts.

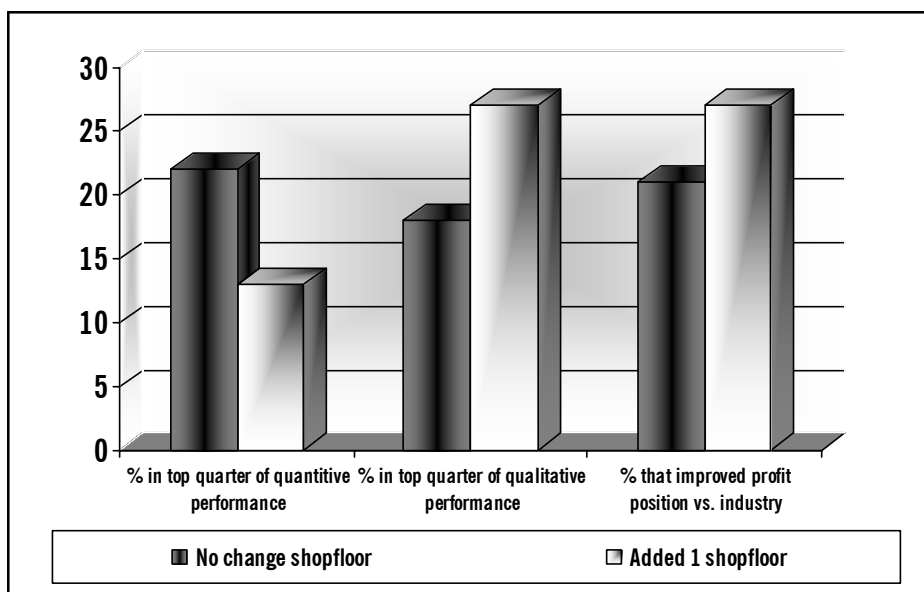
Surprisingly, ESOPs established since 1992 were no more likely to add new kinds of training than were older ESOPs. However, just knowing how many different kinds of training are used tells nothing about the quality and extent of that training. So companies were also asked how much the scope and coverage of their training had changed. About one-fifth of companies reported that training at their company had increased "a lot" since the

ESOP was created (or in the last 10 years for older ESOPs), and about a third more reported that it had increased "a little." By this measure, the new ESOPs were doing more.

Almost 40% of companies reported on whether they had a steering committee of managerial and nonmanagerial employees to oversee the work of shopfloor or work unit teams or committees. Only two companies had such a steering committee. 26 companies reported that teams reported to direct supervisors or other management personnel.

After getting business financial information and learning how to understand it, employees need opportunities to participate in the management and governance of their firm if they are to turn knowledge of their own jobs into benefits for the bottom line. The typical company surveyed reported adding just one type of shopfloor participation. Nearly 40% of responding companies reported that they had made no change in the number of

Figure 2. Increasing shopfloor involvement and business performance



ranged from 27 companies' 0% of pay in the year previous to the survey to one company that contributed 38% of pay to the ESOP.

The nearly 19,000 ESOP participants are mostly current employees, along with 388 retirees who were receiving benefits. However, the total of living retirees from ESOPs is larger, because ESOP benefits at some companies are paid as a lump sum at retirement, taking the retiree "off the books" as a participant in the ESOP. For 12 companies that reported, the average benefit per retiree in 2003 ranged from \$2250 to \$250,000, with a mean of \$12,333 (median, \$10,000). Total benefits paid were more than \$12 million.

Communication, Training and Participation

The typical company used four types of communication, adding one since becoming an ESOP or in the last 10 years. No

techniques used. There wasn't much difference between older and newer ESOPs, with one exception. The two companies that reported adding five or more kinds of participation had been ESOPs before 1993.

Governance

Less than one-fifth (18%) of companies reported that non-managerial employees had served on their board of directors in the last five years. This amounted to 35 individuals in all. In the vast majority of cases (86%), the employees selected the non-managerial directors.

Even where nonmanagement employees aren't represented on the board, they might participate in the governance of the firm through voting. But two-thirds (64%) of companies restrict participant voting of shares to the legal minimum (sale or merger).

ESOP Committees serve under a variety of names and in a variety of roles to support the ESOP. About one-fourth of companies have no ESOP Committee at all. Where the committees exist, they can have multiple roles. In more than half of the companies, the ESOP Committee provides education for the employee owners. In about one third, it advises employees on their accounts, and in about a third it hears complaints. In one-sixth of the companies, members of the ESOP Committee attend board meetings and report to the employees.

In 39 companies (57%), there was an ESOP Administrative Committee to advise the trustee in voting the employees' shares. In only 3 of the 39 did the employees have a direct role in selecting the committee membership. Twenty-six companies reported that their CEO or CFO attended meetings of the ESOP Administrative Committee.

As was discussed at some of the OEOC Conference panels in April, company leadership often agonizes over trusteeship of the ESOP. An outside trustee of the ESOP means less personal involvement in the company's fate. The outside trustee may be more willing to make tough decisions in the ESOP participants' immediate best financial interest, but sometimes that might mean selling the company, at the risk of job loss or longer-term loss of wealth, because good companies can recover their health if the problem is a temporary slowdown in their economic sector. A member of management or other insider is more likely to take the long view and stick with ownership even if that means riding out some bad years. In 56% of companies, a member of management serves as the ESOP trustee, while 40% of companies report having an outsider as trustee.

Another way to give employees a voice is directed voting of shares by the trustee. Among the 41 companies with unallocated shares, three-quarters reported that the trustee voted unallocated ESOP shares as he/she determined, with most of the rest reporting that the trustee voted the unallocated shares in the same proportion as the vote of the allocated shares.

Overall Involvement

Despite the steps taken to involve employees in the company's operation, a lack of overall involvement in management and governance is reflected in the surveys.

In the estimation of the respondents, management is still very much in charge. Employees are most extensively involved and consulted on social events, where half of responding firms reported that employees and management decide together. In 5% of firms, employees alone decide. The next highest level of

involvement is in decisions about working conditions, where about a third of firms report that employees and management decide together, and a little over half report that management asks employees, but then decides alone. On personnel policy, 6% of companies report that management and employees decide together, and just over 40% report that management asks employees before deciding. Just one company reports that employees and management decide together on selecting supervisors, and 20% report that management asks employees about selecting supervisors, but it alone decides. On issues involving compensation, just 6% report that employees and management decide together. Two-thirds of companies provide information only to employees, and nearly 20% report that employees are neither informed nor consulted. For layoffs, over half of companies report that employees receive information only, and another quarter report that employees are neither informed nor consulted. The area where employees are least involved is in the company's investment policy, where 9% report that employees and managers decide together, 8% report that employees are consulted, more than a third of companies (37%) report that employees are neither informed nor consulted, and 42% report that employees receive information only.

One would expect that majority-owned firms would have more involvement, but the differences from minority-owned firms are surprisingly subtle. When all forms of involvement are combined, 37% of majority-owned companies score in the top quarter, compared to 19% of the minority-owned companies.

Despite the reluctance of companies to allow or expand employee participation, nearly 60% of companies reported that employees were more interested in participating in decision-making, and only one company reported a decrease in interest.

Cost of the ESOP

When ESOP companies get together, a frequently heard complaint is that the cost of managing the ESOP is too high. However, most companies (54%) reported that their costs were moderate. About a quarter of companies responding reported that the costs of maintaining their ESOP were low, and less than a fifth reported that their costs were high. One might expect that administration costs would be most burdensome for small companies, but companies of 100 employees or less were only slightly more likely to report high costs.

Operational Performance

Three-quarters of companies reported that the ESOP had a favorable impact on the index of easily quantifiable performance measures. Eighty-eight percent of companies reported a favorable impact on less easily measured qualitative items.

A little over 40% of firms reported that their own employment had increased faster than in their industry. About half reported that their changes had matched their industry, and less than 10% of companies reported that their employment increase had been less than their industry.

Few companies can grow without investing capital. About a third of companies reported that they were investing more capital than their industry, and about half reported that they were investing about the same.

Economic Performance

Looking at profits before the ESOP was established (or 10 years ago for older ESOPs), one quarter of companies reported

that their profits were better than their industry, and slightly more than half reported profits comparable to their industry. After the ESOP was established (or in the last 10 years for older ESOPs), 45% of companies reported doing better than their industry, and 42% reported doing about the same as their industry. In a separate question, more than half (58%) of companies reported that creating the ESOP had favorably affected profits (or in the last 10 years), and less than 5% reported a negative impact.

Total change in stock values ranged from companies in trouble that lost approximately 75% of value over the three year span 2001-2003 to companies that enjoyed a 7-fold gain. Three quarters of companies reported increased share value over past five years. Among the 60 companies that reported for all three years, average annual growth in stock value was about 11.5%.

Pay and Benefits

Companies in the survey typically paid competitive wages, but offered better benefits than conventional companies in their industry. 70% of companies reported that their pay scale for nonmanagerial employees was comparable to their industry, and almost a quarter (24%) reported paying more than their industry. In addition to wages, nineteen companies reported that they had passed cash dividends ranging from .01% to 4% of stock value back to employee-owners in 2003, with comparable numbers and percentages in 2002 and 2001 as well. Twenty one companies distributed profit-sharing or gain-sharing to employees in at least one year between 2001 and 2003, ranging from 1%

to nearly 12% of payroll. More than half (54%) reported that their benefit package (including the ESOP) was better than their industry, and about a third reported that their benefits package was comparable to other firms in their industry.

No matter how strong the company, it is too risky for employees to place all their pension funds into one investment. Sixty-two of the 69 companies (90%) reported that they maintained other retirement plans besides the ESOP. Twelve had defined benefit plans, 60 reported 401(k) plans, and seven had profit sharing dedicated to retirement.

When Employees Retire

A substantial majority of responding companies (61%) require retiring employees to take cash, rather than allowing them to retain stock and voting rights. All four publicly traded companies allow retirees to hold their stock like any other stockholder, enabling them to trade it on the stock market as they wish. For private companies, there is often concern about keeping control of the company in the hands of those who currently work there, so that both short- and long-term interests of the business receive top priority. Nonetheless, a quarter of closely held companies allow retiring employees to retain their stock.

Benefits to Community and Region

Almost half of companies reported that some or a great deal of job outsourcing had occurred in their industry, but less than a quarter (22%) reported that their own company had outsourced jobs to the same degree. **OAW**

OEOC Director Receives Honorary Doctorate of Employee Ownership

In May long-time OEOC director John Logue received an honorary doctorate for his work in employee ownership from Alvernia College, a Franciscan institution in Reading PA. Here are excerpts from his commencement address.



I am extraordinarily honored by the Doctor of Humane Letters, honoris causa. I accept it with gratitude and with a sense of profound humility, for it is less my doing than that of my colleagues at the Ohio Employee Ownership Center and the work of the fourteen thousand employee owners whom we have assisted.

My theme is the Franciscan value of service—the obligation of service to the community. More specifically in the words of the National Conference of Catholic Bishops' pastoral letter "...that we can best measure our life together by how the poor and the vulnerable are treated."

As the pastoral letter makes clear, social and economic justice are not abstract issues, but a matter of daily life that each of us shape through our actions or through our failure to act.

... All of us are called to serve, often in ways that we don't anticipate.

I want to describe my own experience with the Ohio Employee Ownership Center as a parable for what each of us can do as we are called to serve.

For me, it began in apparent chance. I arrived in Ohio in January 1977 to teach political science at Kent State University, just a few miles from Youngstown and its then-vibrant steel industry. That fall Lykes shut Youngstown Sheet and Tube's Campbell works laying off 6000. It was just as the Ecumenical coalition, led by Youngstown Bishop James Malone, which sought to use community and worker ownership to reopen the Campbell works, was getting started. The Campbell works shutdown was only the first of the deluge: Youngstown's economic tragedy played out over the next four years with the additional shutdowns. More than 15,000 jobs were lost. The Ecumenical Coalition failed to save any of the mills, but in fighting to do so, educated the state and the nation, workers, managers, and policy makers alike.

That's why we established the Ohio Employee Ownership Center in 1987.

The OEOC has a dual mission: to broaden ownership of productive assets among working people in Ohio and to deepen that ownership through employee participation in decision making about the businesses they own. Since then we have aided 487 companies and labor-management buyout groups, representing 94,000 employees, resulting in 71 companies becoming partially or wholly employee-owned, creating 14,000 new employee owners and \$300 million in equity for them.

But the numbers gloss over the people—the real stories of jobs saved, of lives changed, of working men and women taking control of their economic destinies and participating in decisions about improving their jobs. **OAW**

20 Misconceptions about ESOP Fiduciary Responsibility and Liability

Bill McIntyre

One of the most misunderstood ESOP concepts is that of fiduciary responsibility. While not intending to identify every misconception or to be a comprehensive encyclopedia about fiduciary responsibility and liability, this article highlights and clarifies, in summary fashion, 20 common misconceptions.

Fiduciary responsibility is an increasingly important and serious issue. Fiduciaries—and all employee-owners and ESOP participants—should have no misconceptions about what it means to have fiduciary responsibility and to have fiduciary liability. They should have confidence that they are complying fully with the requirements accompanying their position. This article will help.



their beneficiaries. ESOP fiduciaries have NO duty to act for the benefit of employees. In rare instances, this distinction is significant. For example, if a company receives an offer to purchase the ESOP stock for 10 times the current appraised value but the purchaser plans to lay off all employees, the trustee cannot consider what will happen to the employees in considering whether or not to accept the offer, as the trustee can consider only the benefit to the Plan participants.

Misconception #5 - Management hires the ESOP stock appraiser.

No. The ESOP stock appraiser works for the ESOP and therefore should be hired by the ESOP trustee.

Misconception #1 - A person who is not named as a fiduciary is not a fiduciary.

It doesn't matter whether or not a person is named as a fiduciary. Formal title is irrelevant. If a person is performing the functions of a fiduciary, then that person is a fiduciary. The "if-it-walks-like-a-duck and talks-like-a-duck, then-it's-a-duck" analogy applies. A fiduciary is anyone with discretionary authority or control over management of the Plan or Plan assets or anyone who provides investment advice for a fee.

Misconception #2 - The Board of Directors of an ESOP company does not have fiduciary responsibility for the ESOP.

The Board of Directors generally selects and appoints the ESOP fiduciaries; i.e., the administrative committee and the trustee(s). This is itself a fiduciary decision and therefore must be done prudently.

Misconception #3 - Management selects/hires the ESOP trustee.

Generally, no. Management may assist in the process—for example by soliciting and reviewing proposals and making recommendations to the Board. But the responsibility usually falls on the Board of Directors unless the plan document provides otherwise.

Misconception #4 - For an ESOP company, a person with fiduciary responsibility is responsible for acting solely for the benefit of the company's employees.

No. ESOP fiduciaries discharge their duties for the exclusive purpose of providing benefits to ESOP PARTICIPANTS and

Misconception #6 - The appraiser sets the price for ESOP shares of company stock.

No. The appraiser's role is an advisor's role. It is usually NOT a fiduciary role. The ESOP trustee has the responsibility to determine the price of shares of company stock. The valuation report is merely a recommendation. The Trustee can either accept or reject that value.

Misconception #7 - The outside company that administers the ESOP (third party administrator or TPA) has fiduciary responsibility to the ESOP.

Generally, no. The TPA is merely assisting the "plan administrator" named in the ESOP document in administering the Plan and generally does NOT have discretionary authority or control over the Plan or Plan assets. Therefore, the TPA is NOT a fiduciary.

Misconception #8 - The Administrative Committee has fiduciary responsibility for the ESOP only if the ESOP trustee is a directed trustee.

The ESOP Administrative Committee has responsibility for interpreting the Plan and establishing policies and procedures to implement the Plan and, as such, is a fiduciary, whether the trustee is directed or non-directed.

Misconception #9 - A company's Board of Directors passed a resolution saying "the company is not for sale;" therefore, they do not have to consider any offers to purchase the company.

At least with respect to the ESOP, this resolution is worthless. In fact, it is likely worse than worthless. If the ESOP fiduci-

aries blindly follow this resolution, it may be a violation of fiduciary responsibility since ESOP fiduciaries must discharge their duties for the exclusive purpose of providing benefits to ESOP participants and their beneficiaries. Ignoring an offer that may be many times greater than the appraised value could possibly be a violation of that fiduciary responsibility.

Misconception #10 - An ESOP trustee must accept any offer to purchase ESOP shares that is greater than the current appraised ESOP stock price.

No. There are several reasons for this NOT being true. For example, circumstances may have changed since the last appraisal, and the offer might not be greater than an updated ESOP stock price. The ESOP stock appraised value is on the basis of Fair Market Value assuming continued operation of the company as a stand-alone company. The appraised value for a strategic buyer, for example, may be a different valuation and may be substantially larger than the Fair Market Value of the ESOP stock. In a joint statement, the DOL and IRS have said that fiduciaries must evaluate the merits of the offer being made. For example, is the purchase price to be paid in cash or in stock of the buyer? Are there "earn out" provisions and what is the likelihood that they will be paid? The offer should then be compared to the "underlying intrinsic value" of the shares based on a long term view.

Misconception #11 - ESOP trustees must require pass-through voting to ESOP participants on any merger or acquisition.

Unless the ESOP documents provide otherwise, participants are required to vote their own shares (pass-through voting) on a merger but NOT on an acquisition unless it also involves a merger.

Misconception #12 - ESOP trustees must require pass-through voting to ESOP participants on a sale of ESOP stock.

Participants are required to vote their own shares (pass-through voting) on a sale of substantially all of the company's assets; however, the sale of ESOP shares does NOT require pass-through voting.

Misconception #13 - It is illegal for a person with a conflict of interest in a transaction to serve as ESOP trustee for that transaction.

It's not illegal. It may not be smart, and it may be inviting lawsuits; however, it is not illegal.

Misconception #14 - Trustees fulfill their fiduciary responsibility for determining the stock price by hiring an appraisal firm to conduct the stock valuation.

Hiring a qualified, competent, experienced appraisal firm is a good start in carrying out the fiduciary responsibility of determining stock value; however, trustees must also understand and agree with the reasonableness of the appraiser's assumptions and methodologies, and must review the appraisal to identify any mistakes made by the appraiser.

Misconception #15 - Only MBAs and/or CPAs are qualified to be trustees...and, certainly, non-management employees do not qualify to be ESOP trustees.

A committee of people can be the trustee. While someone on

the trustee committee must be able to read and understand financial statements, there is no requirement that everyone serving as an ESOP trustee be financial experts. Having said that, it is definitely advantageous for anyone serving as a trustee to receive training on the responsibilities of being a trustee and on the skills needed to fulfill those responsibilities. Having "a good heart and an empty head" is not sufficient.

Misconception #16 - The doctrine of "business judgment" will protect fiduciaries; therefore, it's best NOT to document the process followed to arrive at a decision so no one will be able to attack the basis for the decision.

Process is the key towards discharging fiduciary responsibility. If fiduciaries followed the appropriate process and made a bad decision, they've successfully fulfilled their fiduciary responsibility; however, if they followed a bad process but made the right decision, they have not fulfilled their fiduciary responsibility and could be held liable. SOLUTION: Follow a process of due diligence. Ask questions and document everything.

Misconception #17 - If a fiduciary is judged to have failed to fulfill his/her fiduciary responsibilities, any fiduciary liability will be paid by the company, and the fiduciaries will not have any personal liability.

Fiduciary liability is a personal liability. Fiduciaries may have to pay any judgment against them out of their own pocket, with their own money. Yes, you could lose your house.

Misconception #18 - A company's indemnification clause protects fiduciaries from having to pay personally any fiduciary liability.

Exceptions listed in the company's indemnification clause may mean that the company would NOT indemnify the fiduciaries if they failed to fulfill their fiduciary responsibility and were held to be personally liable. Also, if the company is no longer in business, the indemnification may not be worth much.

Misconception #19 - Either the ESOP fidelity bond, directors and officers (D&O) insurance, or the ERISA rider to the D&O policy will protect fiduciaries from having to pay personally any fiduciary liability judgment against them.

Possibly not. The fidelity bond protects the Plan, not the individual. D&O insurance usually excludes fiduciary insurance under ERISA, and ERISA riders frequently exclude ESOPs. SOLUTION: Make sure your insurance specifically covers ESOPs. The ESOP Association can refer you to brokers who handle D&O insurance specifically designed for ESOP companies. See www.esopassociation.org.

Misconception #20 - Fiduciaries can fulfill their fiduciary responsibility by following the terms of the ESOP Plan Document.

Not always. Fiduciaries are usually required to follow the plan document, but ERISA overrules the Plan. If following the Plan would violate ERISA, the fiduciary must ignore the Plan and comply with ERISA.

This article was reviewed by Ben Wells, ESOP attorney in the Cincinnati, OH, office of the law firm of Dinsmore & Shohl. However, nothing in this article should be construed to be legal advice or opinion. For answers to specific questions, consult your ESOP professional. OAW

19th Annual Ohio Employee Ownership Conference Building an Employee

More than 325 people attended the 19th Annual Ohio Employee Ownership Conference April 15th at the Hilton in Fairlawn, Ohio. After welcoming remarks from **Daryl Revoldt, Governor's Region 9 Economic Development Representative** and **John Logue, OEOC Director**, keynote speaker **J. Michael Keeling, President, The ESOP Association**, strongly emphasized the need to make sure employee ownership is included in the current national political discussion on developing an "ownership society" (see page 14).

Following Keeling's keynote, the morning round of discussions gave folks their choice of panels to attend. Panels included employee owners from Ohio companies as well as professional service providers. An overflow crowd attended the panel on the *ABCs of ESOPs for Employee Owners* that featured **Dave Gustafson, CBIZ Business Solutions**, **Scott Hamner, Findley Davies** and **Dave Raynor, Brouse McDowell**. The panel was moderated by **Randy Leffler, Ohio Manufacturers' Association**. People attending the panel discussion on *Selling Your Business to Your Employees* heard from **Jay Rettig, Software Solutions**, about his recent use of employee ownership as a succession plan. The panel also included service providers **Rosanne Aumiller, Barnes Wendling** and **James Steiker** of **SES Advisors** and was moderated by **Richard Tanner, Ownership Advisors**. The intriguing topic of *Board Governance Strategies* and how the role of the Board has evolved in ESOP companies was discussed by a panel consisting of **Diane Bartlett & Alane Updegraff, ACRT**, and **Daniel Gebremedhin, Paul J. Ford & Co.** This panel was moderated by **Robert Taylor, Falcon Industries**. Various aspects of ESOP stock valuation were covered by the panel *Educating Fiduciaries Regarding ESOP Stock Valuation*. Moderated by **Jared Kaplan, McDermott Will & Emery**, this panel featured **Gary Greenwald, Shayne & Greenwald**, **Radd Riebe, Stout Risius & Ross** and the OEOC's **Bill McIntyre**.

The panel on *Getting Shares into the Accounts of New Employees*, moderated by **Tim Jochim, Jochim Company**, featured speakers from three ESOP companies, **Brad Comport, Davey Tree Expert Company**, **Pat Finnegan, Fastener Industries** and **Barry Hoskins, The Antioch Company**. Consistent with the overall theme of the Conference, the panel on *The Employee Ownership Society: Vision & Implementation* featured **Reverend Charles Hurst, North Presbyterian Church** in Cleveland and **John Logue, Ohio Employee Ownership Center**. The panel moderator was **Helen Morrison, Deloitte & Touche**. Ground-breaking educational opportunities being offered at three universities were profiled by **John Hoffmire, University of Wisconsin**, **Michael Keeling, ESOP Association** and **Tom Webb, St. Mary's University in Nova Scotia**. This panel on *Diverse Approaches to Employee Ownership Management Training at Universities* was moderated by **Rick Schroath, Kent State University**.

Lunch featured the presentation of the **2005 Ohio Employee Ownership Awards** to Ohio companies and individuals who demonstrated exceptional leadership in contributing to em-

ployee ownership. **Fastener Industries** received an award for *25 Years of Employee Ownership, Stability and Prosperity*. One of Ohio's oldest 100% employee-owned companies, this firm is also celebrating its 100th year in business (see cover story). **Contract Sweepers & Equipment**, a brand new ESOP in Columbus, was honored for *Getting Your ESOP Off to a Good Start*. In addition to the awards, the lunch program featured a presentation by **Carl Grassi, McDonald Hopkins** on a new legislative proposal for an Ohio Repurchase Liability Fund.

The rest of the day featured panel discussions ranging from ESOP technical issues to issues of ownership culture. *ESOP Committees Build for Success* featured informative presentations about three ESOP committees' experiences in promoting awareness and a spirit of teamwork from **Fred Beaver and Mardi Gauer, The Ruhlin Company**, **Bob Buccigrossi and Mike Fox, PT Tech**, and **Jennifer Phillips and Deb Stottlemeyer, YSI Incorporated**. The panel was moderated by **Karen Thomas, OEOC**. Folks attending the panel on *Selling to an ESOP* got step-by-step advice on how to sell to your employees from service providers **Jared Kaplan, McDermott Will & Emery**, **Kurt Nichols, LaSalle Bank**, **John O'Brien, Duff & Phelps** and **Rick Schlueter, Comstock Valuation Advisors**. The panel was moderated by **Stephen Baumgarten, Morgan Stanley**. Folks attending the panel presentation on *The Fastener Industries Story: 25 Years of Employee Ownership* heard from **Forrest Franklin and Ron Foreman, Fastener Industries** and **Debi Kozak, of Fastener's Joseph Industries** subsidiary discussing the special features of Fastener Industries ESOP and business culture. The panel was moderated by **Fran Migliorino, the Governor's Region 8 Economic Development Representative**.

Conference participants attending the panel on *Educating Fiduciaries Regarding the Responsibilities of ESOP Trustees* found out exactly what an ESOP trustee does from **Karen Bonn, GreatBanc Trust** and **Carl Grassi, McDonald Hopkins** and learned from the actual experiences of trustee **Tom Gruber, CareStar**. An in-depth discussion of everything related to age 55 diversification took place among **Tina Fisher, Principal Financial Group**, **Hugh Reynolds, Crowe Chizek** and **Carolyn Zimmerman, Blue Ridge ESOP Associates** in the session on *Age 55 Diversification From A to Z*. The discussion was led by modera-

Selected highlights from the 19th Annual Ohio Employee Ownership Conference, (Clockwise, top left): The Dimco-Gray contingent stands by their product display (and their products) at the Network Showcase, L to R, Jim Daulton, Guy Hughes, Dollie Mabe, and Dietrich Sauer; OEOC Director John Logue (at podium) Introduces Conference Keynote Michael Keeling, President and CEO of The ESOP Association. Excerpt from Keeling's remarks can be found on pg. 14; Employee Owners from ACRT ham it up for the camera, L to R, Alex Steele, Elyse Siggelkow, Doug Schueler, Karalee Canham, Darrin Dion, Janice Morris, Debbi Nelson, and Mark Schleappi; Employee Owners from Contract Sweepers & Equipment, receive their award for Getting their ESOP Off to a Good Start. From L to R, Bill Miller, Stephanie Azbell, Phil Adornetto, Craig Miller, Gerry Kesselring, Robin Mabry, Bill McIntyre of the OEOC, Todd Higdon, and William Gallagher.

Employee Ownership Conference Employee Ownership Society

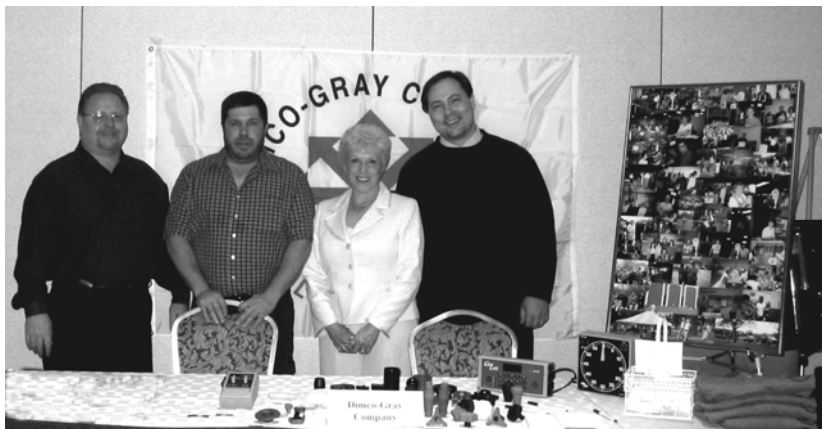
tor **Kent Mann, Thompson Hine**. Questions to ask, steps to take and options to explore in *Employee Buyouts* were discussed by a panel that featured **Gerry Kesselring, Contract Sweepers & Equipment**, **Ron Gilbert, ESOP Services** and **Attorney Deborah Groban Olson**. **Steve Clem, OEOC** moderated. In a bit of a departure from the usual panel type of presentation, **Dan Bell, OEOC** served as instructor for *Open Book Management: The Dynamics to Making a Good Living Today and in Retirement*.

Putting It All Together: Making Employee Ownership Real featured representatives from four Ohio ESOP companies talking about how employee ownership is making a difference in their companies. The panel consisted of **Sue Norris, Delta Systems**, **Fred Sheets, Rable Machine**, **Diana Tillman, YSI Incorporated** and **Pat Zajac, ACRT**. The discussion was moderated by **Chris Aquilar, R.J. Martin Electrical Contracting**. Presenting their respective approaches to sharing information on their company's financials were **Gary Demos, Dave Fox Remodeling**, **Bruce Inzetta, Will-Burt**, **Bev Kossum, The HDH Group**, and **Ted Weil, Libby, Perszyk, Kathman**. This panel on *Communicating with Employee Owners about Company Performance* was moderated by **Pete Battista, ComDoc, Inc.**

Moderator John Habanek, The Great Lakes Construction Company, presided over a panel of consultants discussing the topic of *Educating Fiduciaries re How to Handle an Offer to Buy the Company*. The group included **Marv Hatsfield, Essential Solutions**, **David McCoy, Business Valuations** and **Ben Wells, Dinsmore & Shohl**.

Issues specifically affecting S-Corp ESOPs was discussed by service providers **Brian Hector, Morgan Lewis & Bockius**, **Cecilia Loftus, ESOP Economics** and **Stephen Smith, Krieg Devault**. This panel on *Tax Incentives for S-Corp ESOPs and Their Related Additional Regulations and Implications* was moderated by **Lyn Golly, EBSC**. Following up the earlier lunch presentation on repurchase obligations, **John Logue, OEOC** and **Dale Vlasek, McDonald Hopkins** responded to participants' questions in the session on *Proposed ESOP Repurchase Fund Legislation Q & A*.

Following the formal program for the day, a closing reception was held and the discussion continued in a relaxed atmosphere. 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 helped make the conference the largest employee ownership event in the region and we look forward to seeing even more folks next year as we celebrate the 20th Annual Ohio Employee Ownership Conference to be held Friday, April 21, 2006. **OAW**



Why isn't Employee Ownership Part of the Ownership Society?

Editor's Note: Michael Keeling, President of The ESOP Association, delivered the keynote address at the 19th Annual Ohio Employee Ownership Conference. Here are excerpts from his speech.

I am proud to say that we at the ESOP Association saw a program pioneered here in Ohio that teaches free enterprise and capitalism to average pay employees. We took it nationwide and the ESOP Association and the Ohio Center now sponsor two joint ventures a year, using the OEOC staff as the faculty. [See bottom of facing page.] Our dream would be to have one every month all over the country because it leads to participatory companies having more profits, better results and better retirement security.

"In America's ideal of freedom, citizens find the dignity and security of economic independence, instead of laboring on the edge of subsistence. This is the broader definition of liberty that motivated the Homestead

Act ... To give every American a stake in the promise and future we will ... build an ownership society. We will widen the ownership of homes and businesses, retirement savings, and health insurance—preparing our people for the challenges of life in a free society. By making every citizen an agent of his or her own destiny, we will give our fellow Americans greater freedom from want and fear, making our society more prosperous, just, and equal."

These words from President George Bush's inauguration speech in 2005 could have been written by Louis Kelso or Thomas Jefferson, who said that it is essential for individuals to have widespread and broad based property ownership. These words create great hope for those of us who believe that this nation should have employee ownership at the forefront of building an ownership society. But we do not now have, not from the Republicans, not from the Democrats, a discussion that focuses on where employee stock ownership stands in the ownership society.

The President, when he talks about an ownership society, mentions three things (1) personal accounts in Social Security, (2) individuals have more responsibility through individual accounts providing their health care and, (3) home ownership. If you look at some of the things that the President, the Secretary of the Treasury, the Secretary of Labor and the economic advisors say about two of those three things, you come to the conclusion that they are talking about an investor society, not an ownership society.

Personalizing Social Security would take some of the payroll taxes that employees are paying now and put them into index funds and mutual funds in the public stock marketplace. They would be safe investments. Anyone who studies diversified mutual funds and index funds would conclude that those investments will grow over the long run. The health accounts are similar. The money would be going into safe investments.

The ESOP Association has nothing against everyone having more investments in our capitalistic system. No one can be against more Americans owning stocks and bonds in the famous New York Stock Exchange, the NASDAQ, the American Exchange, or the regional exchanges. But there is a big difference between owning something which you have no influence over whatsoever, and owning something like your own home.

When someone walks into a home that they own, they feel a

sense of pride, and they are more committed to taking care of it. The President noted that homeowners are more likely to participate in neighborhood activities, more likely to be involved in community activities, the school PTAs, church groups, and they are more likely to vote.

That same sense of personal ownership and involvement is true about ownership in your company. Our foundation has financed questions on employee ownership in the General Social Survey, which is conducted through the University of Chi-

cago. The survey showed that thirty-eight million Americans had some kind of ownership stake in the companies where they worked, and their optimism matched that same profile as homeowners, that the Presi-

dent was talking about in Cincinnati. These thirty-eight million people were more optimistic about their future, more optimistic about the future of America. We have a match here, between employee ownership and what the President is saying about the ownership society when he talks about home ownership.

With our friends on Capitol Hill, we are asking the President to make employee stock ownership a focus of the ownership society.

So why isn't the White House discussing employee ownership?

Maybe it's politics. If they discuss employee stock ownership, the media might return to the scandals and failures at Enron, WorldCom, United Airlines, etc.

Or maybe it's the controversy over how companies account for stock options on the company's income statement. Maybe they feel that if they start talking about employee stock ownership that the big companies will say that the White House needs to go up to the Hill to Congress and stop the accounting recommendation for stock options.

Or maybe they feel that we already have what we need, that there isn't any need for new laws or new incentives for ESOPs.

If that's their position, then it contradicts the argument about home ownership. This nation has all kinds of laws and programs promoting home ownership. If you are not bringing employee stock ownership to the table because we don't need the help, then why bring home ownership to the table?

Or it could be that the philosophical libertarians in the GOP aren't comfortable with any government encouragement of ownership?

I am not a pessimist about it. We can win this debate. Let your Republican members of Congress know that we love the talk about an ownership society, but we would like employee stock ownership, too. Ask your Democratic members how anyone can be against an ownership society in a capitalistic system. Tell them to "get on board" with effective policies that have a track record. Let's build consensus that we will be part of the ownership discussion. From our lobbying posture, we will continue to push. We will not buy into the idea that laying low is the way to go. We will ask for legislation promoting ESOPs to be introduced. We will ask our people to try to get their members of the Senate and the House to cosponsor. We have to be a part of this debate. We have to work with the details. We have to be committed to employee stock ownership. **OAW**

"...thirty-eight million Americans had some kind of ownership stake in the companies where they worked..."

Vermont Employee Ownership Center Holds 3rd Annual Conference

Over 130 people attended the Vermont Employee Ownership Center's third annual conference in Burlington on June 6, 2005. This year's conference was titled "Making It Happen—The Nuts & Bolts of Employee Ownership and Participation" and featured eight workshops, including a double session on setting up an Employee Stock Ownership Plan, a double session on worker cooperatives, and four sessions on employee participation and team-based management.

After a rousing talk by U.S. Representative Bernie Sanders, keynoters Frank Sands and Cindy Fountain of King Arthur Flour Company described that company's transition from multi-generational family ownership to employee ownership. According to Sands, the former owner, "We didn't have any family members interested in being involved in the business, but our employees were like family. So we decided to sell to them."

In 1996, King Arthur Flour established an ESOP. Last year, the ESOP purchased the last of the stock, making KAF 100% employee-owned. According to Sands, "We have done well through this sale, and so has everyone now with the company.

These days, when an employee retires, they take a piece of the pie with them—which seems only fair, since they helped bake it." Employee-owner Fountain described a workplace that is both nurturing and challenging, a place that she is enormously proud of.

This year's conference was coordinated with Vermont Businesses for Social Responsibility's annual spring conference, and the two events shared a theme: the importance of ownership succession planning. Both organizations presented a pre-conference seminar titled "The Legacy Question: Ownership Succession and the Challenge of Preserving Social Mission." It featured a welcome by Vermont Governor Jim Douglas, an introduction by Marjorie Kelly, founder and editor of *Business Ethics* magazine, and presentations by business brokers, attorneys and Vermont business owners. According to Kelly, "The founders' era of socially responsible business is passing. What is opening is a new era of institutionalizing social mission. Social concerns must be woven not only into management processes, but into ownership structures as well."

For more information, please see www.veoc.org. **OAW**

The ESOP Association's Employee Owner Retreats

Summer Employee Owner Retreat
August 11-13, 2005
Doubletree Suites Downers Grove
Chicago, IL

Winter Employee Owner Retreat
February 2-4, 2006
Embassy Suites Phoenix North
Phoenix, AZ



Previous Participants say...

"Everyone is impressed by the information they are receiving. People are excited."

"...the most informative program of any seminar/class ...(I've)...ever been to."

"We have direction on the ESOP Committee...there is more enthusiasm...it was like night and day before and after the Retreat for Committee members."

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

The **Employee Owner Retreat** introduces employee owners to skills, knowledge and contacts which will make their participation as owners even more effective.

- ♦ **Team problem-solving skills**—Consensus-building, Identifying and solving problems
- ♦ **Ownership knowledge**—ABCs of ESOPs, Financial Training
- ♦ **Sharing experiences**—roundtables, discussions

\$495 for first participant; \$395 for additional participants from the same firm (Non ESOP Association members pay \$675 and \$500). Includes meals and materials.

For questions or more information call: The OEOC, Karen Thomas/Bill McIntyre/Dan Bell, 330-672-3028 or the ESOP Association, Rosemary Clements, 202-293-2971.

Ohio's Award-winning ESOPs

Chris Aguilar of R.J. Martin Electrical Contracting in Bedford Heights is the 2005 Ohio Employee Owner of the Year

Chris, the Safety and Training Supervisor with five years of service, serves as a liaison to the ESOP Committee. "A lot goes into educating about our ESOP," he explained, "I serve as a link between management and employees that work in the field." He provides oversight of the company's monthly publications and ESOP newsletters, and facilitates continuing education. R.J. Martin Electrical Contracting is a 160-employee firm which provides electrical and tele-data contracting services to commercial and industrial customers.



Chris Aguilar of R.J. Martin Electrical Contracting.



Floyd Griffin, Patio Enclosures; Dave Gustafson, CBIZ Accounting Tax & Advisory Services; Barry Hoskins, The Antioch Company; and Karrie Imbrogno, Chapter Administrator congratulate Deb Stottlemeyer of YSI who is holding her National 2005 Chapter Officer Award.

YSI's Deb Stottlemeyer is Outstanding ESOP Chapter Officer

Deb Stottlemeyer of YSI Incorporated, President of the Ohio Chapter, won the 2005 Outstanding ESOP Association Chapter Officer Award at the national conference in Washington DC in May. "This is an award for all of us who serve this chapter", she said in accepting the award. Deb is the Benefits Administrator at YSI Incorporated, a 37% ESOP-owned firm specializing in environmental, water quality, industrial and health care instrumentation.

Republic Storage Systems wins Business of the Year and Phoenix Award

Republic Storage systems won both the 2005 Phoenix Award of the U.S. Small Business Administration and the 2004 Business of the Year Award of the Canton Regional Chamber of Commerce in recognition of the 100% employee-owned company's survival of the July 2003 flood that stopped operations and damaged inventory. Republic Storage Systems is a Canton-based manufacturer of lockers, shelving and storage with over 500 employees.

New Product Innovations Wins Young ESOP Award

New Product Innovations in Powell, Ohio, won the Young ESOP Award at The ESOP Association national conference for their comprehensive and balanced ESOP education. NPI has 42 employees and specializes in product design, development and manufacturing as a partner for organizations with product development needs. The firm is 21% employee-owned and the ESOP was established in 2002.



Shawn Dodson of New Product Innovations was in Washington DC in May to receive NPI's Young ESOP Award. With him is Deb Stottlemeyer, ESOP Association Ohio Chapter President.

YSI Helps Farmers Rebuild Tsunami-Damaged Fish Ponds

Taking seriously its corporate mission to "mind the planet," YSI Incorporated took action in January 2005, immediately following the Indian Ocean tsunami, and established a special "Fund for Rebuilding Aquaculture in Tsunami-Affected Areas." It has donated over \$75,000 to help Indonesian fish farmers recover from the long-term effects of the tsunami. All the funding is earmarked for projects and equipment that help small-scale fish and shrimp farmers recover their coastal ponds that directly support their ability to earn a living. See www.ysi.com/environmental to learn more.

Zandex Ohio's E-O Company of the Year

Each of the seven Zandex campuses proudly flies the ESOP flag. Zandex Health Care Corporation, a nursing home company with about 1200 employees, is Ohio's 2005 Employee-Owned Company of the Year and proud of what employee ownership means to the staff and residents. Headquartered in Zanesville, the firm is 54% ESOP-owned. The ESOP was established in the 1980s. Zandex communicates about the ESOP internally and externally. The company shares profits with pass-through dividends.

The Zandex ESOP Committee, which includes employees elected from each location, has multiple roles for communica-

**Don't forget to mark your calendars for the 20th Annual Ohio Employee Ownership Conference
Friday, April 21st, 2006, Akron, Ohio**

tion, education, ESOP administration, and advising managers on plan-related issues. Cindy Lish, a nursing supervisor, recently joined the committee. "I didn't know what all those numbers mean so I decided to run for the ESOP Committee," she said. "We have lots of say-so in our future. What you do day-to-day matters now and can affect your retirement." Two members serve on the Board.

ESOP communication is included for employee orientations, new hires, in-services and social activities that bring employees and managers together for Q&A time. Posters in each location proclaim employee ownership and read: "At Zandex We Treat You Like We Own the Place, Because We Do!"

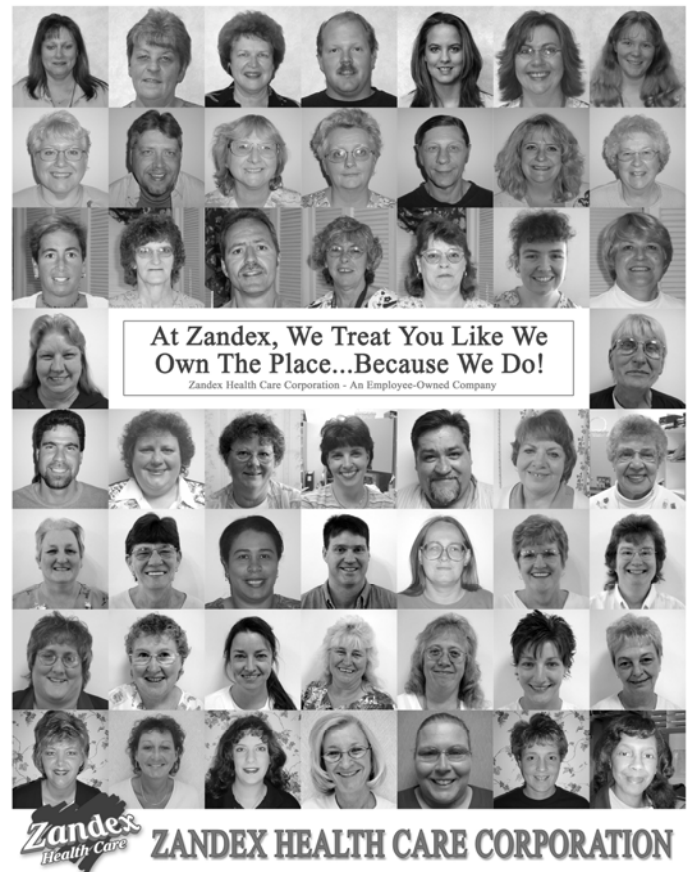
The employee-owners and managers see a positive impact from these communication efforts. Committee member and nurse Phyllis Croston said, "It's our business, we have a say, and we hope to do well and have something to show for it. Employees stay longer now and our resident 'customers' get better care. It's a give and take thing."

As Care Center Administrator, Mark Richards noted, "The ESOP makes a world of difference; many of our policies and procedures come from suggestions by the front-line staff. Employees' voices are heard and the decisions they make benefit the whole organization." For administrator Joni Fox, "being an ESOP gives us a sense of belonging and a wonderful feeling. People seem happier and so our residents are happier."

Employees also communicate about their ESOP in their region. A full-page ad announced when employees purchased the controlling stake in the company. Zandex runs daily TV and radio ads featuring 12 employee-owners, with the catchy lead: "The employee-owners of Zandex want you to know, we're proud of the care we give your loved ones." Employee license plate frames proclaim "ZANDEX—An ESOP Company".

Zandex has earned two Excellence in Nursing Care awards from the Ohio Health Care Association, and has an above-average occupancy rate. Zandex Vice President Stoeck Stout

confides, "at Zandex we have a saying—'We don't have to be 100% better than our competitors, we just have to be 1% better'. Every day our employees are looking for that 1%." **OAW**



Zandex's employees take pride in their company

Ohio's Employee-Owned Network 2005 Upcoming Events

CEO and CFO Networking Dinner
September 13, Firestone CC, Akron

The ABCs of ESOPs with The ESOP Game
A basic orientation to employee ownership
and the role of employee owners.
September 15, Toledo

The ABCs of ESOPs with The ESOP Game
A basic orientation to employee ownership
and the role of employee owners.
September 22, Akron

The "Basics of Business" Game
October 20 - 21, NE Ohio
Educational game explores the financial side of business. Learn ways to increase production, improve productivity, manage sales, impact the bottom line and grow share value.

Get Started (or Jump-Started) & Ready for Action!
ESOP Communication Committee Workshop
November 2 SW Ohio

ESOP Administration Forum
November 3 SW Ohio

ESOP Fiduciary Workshop
December 7, Kent

ESOP Administration Forum
December 8, Kent

*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.

Book Reviews: Tales of Employee Ownership

Corey Rosen, John Case, and Martin Staubus *Equity: Why Employee Ownership Is Good for Business* (Harvard Business School Press, 2005) ISBN 1-591-39331-0 \$27.50. 224 pp

After decades of being largely ignored by business schools, it is encouraging to see that Harvard Business School Press has published a new and comprehensive book on employee ownership. It is even more encouraging to see that this new book is so compelling.

Rosen is the long-time executive director of the National Center for Employee Ownership. Case is the former senior editor at *Inc.* magazine, author of *Open-Book Management*, and a leading journalist covering the subject. Staubus is Director of Consulting at the Beyster Institute for Entrepreneurial Employee Ownership at the Rady School of Management at the University of California in San Diego.

While the book provides an overview of the research on employee ownership, as well as the mechanics of various plans, its focus is on what the authors call the "equity model." The authors chose the term "equity" very intentionally. On the one hand, it refers to equity in the sense of the many ways ownership can be shared: ESOPs, employee stock purchase plans, 401(k) and profit sharing plans invested in company stock, broad based stock options, restricted stock, and similar plans. At least 25 million U.S. workers now own stock in their company in one way or another (and often in multiple ways in the same company).

This enormous growth has largely been under the radar of much of the business press and almost all business schools. This has been very odd indeed since the very same business schools bring in the CEOs of highly innovative and successful companies like P&G, Cisco, eBay, Amgen, SAIC, and others who showcase employee equity ownership inside their companies. It is odd that the business schools and the leading business magazines themselves choose to focus on a "personality cult" version of success in re-telling these stories, while avoiding laying out a more nuanced picture. The book, *Equity*, changes all of this. It looks at small, medium, and very large corporations in a variety of businesses, so it is a good handbook for individuals in many different kinds of companies.

"Equity" also is used by the authors in the sense of fairness. Companies following the equity model *both* spread ownership broadly and create an organization that shares financial and other performance information widely and deeply; provides employees with structured and meaningful opportunities for input into decisions affecting their jobs; and gives employees the needed training not just in their jobs, but also in how to be better business people. Extensive research is cited to show that companies following this model perform much better than would otherwise have been expected and create more wealth for employees.

Much of the book makes this case through stories. The book opens with the tale of Stone Construction Equipment Corporation in Honeoye, NY, a 200-employee, 100% ESOP-owned manufacture

of small construction equipment. At a time when all of its competitors are either gone or overseas, Stone manages to compete very profitably by engaging its employees as owners. Monthly meetings go over key financial numbers, employee committees tackle shop floor issues, customers talk about problems directly with employees who make the products, and small group "cells" of workers meet daily to plan out their tasks. The resulting ideas range from fairly big ones—new software to maximize the number of parts created from a single sheet of steel—to hundreds of smaller ones—creating an adjustable grinding table or finding a better cleaning fluid, for example.

The book looks at dozens of other examples, often in-depth, ranging from the small hardware store (Jacksons Hardware in San Rafael, CA) whose profits increased after Home Depot and West-Coast chain Orchard Supply moved in next door to such major companies as W.L. Gore and Associates

(maker of Gore-Tex), Science Applications (with 41,000 employees), Southwest Airlines, and Whole Foods. Different as they are in many ways, all share a passion for

getting people involved in finding ways to improve the company.

But the book is not an uncritical argument for employee ownership. One chapter looks at the implosion at United Airlines, pointing out that United never chose to follow the lessons of other equity model companies. Instead, after a brief and successful experiment with employee involvement, both union and management leaders knowingly chose to revert to more comfortable adversarial roles. Employees owned a lot of stock, but they were treated as owners only fleetingly. United never implemented a cash profit sharing plan to share the new productivity gains with employees. United never implemented a serious attempt at employee involvement or management training recommended by experts. And the United Board of Directors did not try to manage the corporate culture of the company as a key strategic asset. The authors do not view the ownership of company stock as an unmitigated blessing. They say that companies need to make sure employees investing heavily in company stock in 401(k) plans, for instance, need to be very aware of the risks involved. They are also critical of companies that share token amounts of ownership through options or similar means while front-loading executives with obscene amounts of ownership.

Rosen, Case, and Staubus have written a much-needed book. It is, without a doubt, the best book of case studies yet done on employee ownership. The authors brilliantly tell the stories of how equity model companies have generated high-performance through employee ownership. This is, in short, the most practical, down-to-earth, and insight packed book on how to create and implement equity systems that work. But the book goes beyond this. It integrates the philosophy of ownership, the social science behind an ownership culture, and the important politics of having senior management support, into a very readable whole. I strongly recommend this book. It is a great read and is also a good choice to give to employees, managers, and students. — **Joseph Blasi**,

Blasi is Professor in the School of Management & Labor Relations, Rutgers University.

*The best book of case-studies yet
done on employee ownership.*

Gar Alperovitz, *America beyond Capitalism: Reclaiming Our Wealth, Our Liberty, and Our Democracy* (John Wiley & Sons, 2004) ISBN 0-471-66730-7. \$24.95 (hardback), 336 pages.

"They called it 'Black Monday' - the day in 1977 when five thousand workers at the Youngstown Sheet and Tube plant in Ohio were told the mill was going to close" is the way Gar Alperovitz's *America beyond Capitalism* starts. Alperovitz, now a professor of Political Economy at the University of Maryland, worked for Youngstown's Ecumenical Coalition in trying to save the mills through worker and community ownership.

He writes, I think correctly, that the ultimately unsuccessful struggle to save the Youngstown mills "continued—and in many parts of Ohio (and elsewhere throughout the United States), worker-owned firms inspired by that initial fight are now commonplace." It certainly is the reason why the Ohio Employee Ownership Center exists.

America beyond Capitalism is anything but an academic tome. This easily accessible, carefully documented book goes directly to the classic themes of American political thought—the relationship between equality, liberty and democracy—in a way that every American can understand. Alperovitz, like Thomas Jefferson and Alexis de Tocqueville in the early years of our Republic, argues that relative economic equality is key to sustaining both liberty and democracy. He sees broadening ownership as crucial and employee ownership as a major component of that effort.

Equality, liberty, and democracy aren't being sustained by our current political and economic system, says Alperovitz. He assigns the fault fundamentally to our economic system, which increasingly concentrates wealth and income. This concentration of economic power, in turn, corrupts our political system, undercutting both liberty and democracy. The corruption of the political system to favor the wealthy and large corporations further undermines equality and liberty.

Alperovitz devotes a third of the book to his argument on how to increase economic equality, which he sees as key to his vision of America as a "pluralist commonwealth." His comments on the importance of employee ownership will get approving nods from the readers of *Owners at Work*.

For Alperovitz however, employee ownership is only one of many ways in which ownership is being broadened—and becoming more locally anchored. He cites additionally community land trusts, municipal ownership, individual development accounts, public and social venture capital funds, and peculiar state systems like the Alaska permanent fund, which distributes that state's oil royalties to its citizens as their patrimony. He looks at thousands of non-profits that have developed businesses to stabilize their communities' economic base. He notes that today there are 4,000 Community Development Corporations (CDCs)—virtually all set up since 1960 as a lasting result of Johnson's War on Poverty. The most innovative of these—and Alperovitz cites the Bedford-Stuyvesant Restoration Corporation in New York, the New Community Corporation in Newark, NJ, and Kentucky Highlands—have each created thousands of jobs each through successful local investments in high unemployment areas.

Alperovitz goes on to look at state initiatives to channel capital into local investments. Some are old institutions, like the state-

owned Bank of North Dakota, set up in 1919, and the Wisconsin State Life Insurance Fund, operating since 1911. Others are new, like the initiatives by state pension funds, such as CalPERS, the California Public Employee Retirement Fund, and the Retirement Systems of Alabama to blaze new paths in pension fund investment to stabilize and grow state and local economies. He points to high-tech state venture capital funds, such as Maryland's Enterprise Investment Fund. All of these should be instructive for Ohio policy makers.

Perhaps the greatest virtue of this book for employee ownership advocates is that it forces us to place our work in a broader perspective. Alperovitz says that all of this local activity to broaden ownership has happened beneath our radar because "Specialists in narrowly defined sectors... often do not know of experiences in other areas." Guilty as charged!

This volume is as interesting and as challenging in the areas of liberty and democracy as it is in the area of economic equality and wealth ownership. OAW readers will find it worth your time. Take it on vacation with you!

America beyond Capitalism joins two other recent books—Bill Greider's *Soul of Capitalism* (2003) and Thomas Friedman's *The World Is Flat* (2005) - in suggesting a more significant role of employee ownership in America's economic future. None of these books comes out of the employee ownership community. All three are written by outstanding political and economic commentators—by some of the brightest, most thoughtful and best informed people writing about the American scene today.

By chance, I read this book while visiting the cooperative sector in Emilia Romagna, the region in Northern Italy around Bologna that has the world's greatest concentration of worker cooperatives. Together co-ops - workers, consumer, housing, agricultural, and financial - generate 30% of the regional GDP. They are coupled with a vibrant small business sector creating a locally owned and controlled economy. This is Alperovitz's "pluralist Commonwealth." And, as David Erdal's study ("Is Employee Ownership Better for Your Health?" OAW, winter 2001/02) of Emilia Romagna suggests, higher degrees of employee ownership increase civic participation, voter turnout, and even blood donation and life expectancy.

Ownership does matter - local ownership and employee ownership alike. — **John Logue**

Logue teaches Political Science at Kent State University, and is Director of the Ohio Employee Ownership Center.

Books Briefly Noted

C. John Kruzeski, *WESAP, The Weirton Steel Annihilation Plan* (McClain Publishing, Parsons WV). \$24.95. A study of the rise and fall of the Weirton Steel ESOP. Signed copies available from wesap-byck@yahoo.com or write to Elizabeth A. Stewart, Marketing Representative, 1100 Chapline Street, Wheeling WV 26003.

Norman G. Kurland, Dawn K. Brohawn, & Michael D. Greaney, *Capital Homesteading for Every Citizen: A Just Free Market Solution for Saving Social Security* (Washington: CESJ, 2004) \$18. Expanded edition of the 2002 volume which focuses on broadening ownership through "capital homesteading."

(Continued on page 20)

George W. Loveland, *Under the Workers' Caps: From Champion Mill to Blue Ridge Paper* (University of Tennessee Press, forthcoming September 2005). \$29. A study of the Blue Ridge Paper ESOP.

John Logue and Jacquelyn Yates *Productivity in cooperatives and worker-owned enterprises: Ownership and participation make a difference!* (Geneva, Switzerland: International Labour Office, 2005). ISBN 92-2-116536-1 69 pages

Many accept a cultural presumption that worker ownership cannot be as efficient or productive as conventional ownership. But what does the evidence say?

This long review of academic research on productivity in employee owned enterprises finds that cooperatives and employee owned firms are no less productive than conventional firms and are likely to be more productive than conventional firms when they are

structured and managed with an eye to employee involvement. In agriculture, cooperatives have provided products and services for farmers at a lower cost than conventional firms, and in some cases what they have provided was not available at all from conventional firms.

The research also shows that employee-owned firms tend to allocate their profits differently than do conventional firms. They offer better job security, pay competitive wages (or better), and distribute surplus profits as dividends or profit-sharing. Like conventional ownership, worker ownership and farmer/small business ownership of cooperatives works best in a market economy where government provides basic guarantees of property ownership. Where cooperatives and employee ownership are used by the state to promote economic development, even with very good intentions, they are likely to become enmeshed in activities that sap their productivity. The booklet features an extensive bibliography. **OAW**

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Volume XVII No. 1

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UPCOMING NETWORK EVENTS – 2005

CEO and CFO Networking Dinner
September 13, Firestone CC, Akron

The ABCs of ESOPs with The ESOP Game
September 15, Toledo

The ABCs of ESOPs with The ESOP Game
September 22, Akron

The "Basics of Business" Game
October 20 - 21, NE Ohio

Get Started (or Jump-Started) & Ready for Action!
ESOP Communication Committee Workshop
November 2, SW Ohio

ESOP Administration Forum
November 3 SW Ohio

ESOP Fiduciary Workshop
December 7, Kent

ESOP Administration Forum
December 8, Kent

See page 17 for details on these programs

**Don't Forget to Mark Your
Calendar for the
20th Annual
Ohio Employee Ownership Conference
Friday, April 21st, 2006, Akron, Ohio**

OTHER EVENTS OF INTEREST

The ESOP Association
Summer Employee Owner Retreat
August 11-13, 2005
Doubletree Suites Downers Grove (Chicago)
See pg. 15 for more details

National Cooperative Business Association (NCBA)
11th Annual Conference for Purchasing Cooperatives
Rosemont (Chicago), IL
September 15-16, 2005
Contact Alicia Valencia at (202) 383-5440 or avalencia@ncba.coop.

National Center for Employee Ownership (NCEO)
Get the Most Out of Your ESOP – Annual Ownership Culture Conference for ESOP Companies
St. Louis, MO
September 26-28, 2005
<http://www.nceo.org/meetings/esopculture.html>

The ESOP Association OH/KY Chapter
16th Annual Fall ESOP Conference
Grand Host East, Reynoldsburg OH
October 5th, 2005
Contact Karrie Imbrogno at 440-989-1552 for details

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