

OWNERS AT WORK

THE NORTHEAST OHIO EMPLOYEE OWNERSHIP CENTER

Volume II, No. I



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EMPLOYEE OWNERSHIP WITH A TWIST... OF VODKA

Employee Leasing Is a Growing Phenomenon in the USSR



On any given day in the heart of Moscow, a couple hundred patient visitors form an orderly single-file line in front of Lenin's tomb. But now Lenin has some competition. "Today the line to purchase a \$6 Big Mac at the Moscow McDonalds is just as impressive," according to Center Director, John Logue, who recently returned from a trip to the Soviet Union with Governor Celeste. The ongoing restructuring of the Soviet economy, which has created an atmosphere where McDonalds can set up shop in Moscow, has also opened the door for Soviet officials to explore the creation of alternative ownership structures to improve the present economic system; employee ownership is under serious consideration.

At the invitation of the Mayor of Moscow, the Governor and a group of twenty-six Ohioans visited Moscow to discuss the possibility of joint ventures between Ohio and Soviet firms and to share solutions to common problems. Logue and Tom Moyer of Bliss-Salem Inc., one of Ohio's 100 percent employee-owned businesses, were invited to share the Ohio experience with employee ownership.

As a result of perestroika, Soviet enterprises face the challenge of building a system which includes incentives for workers without creating dramatic economic inequalities. Parts of the unfolding story sound vaguely like stories of American divestitures to employees. Some Soviet firms have utilized employee ownership as a mechanism to transfer ownership and to provide an incentive plan for workers. In fact, worker ownership is a growing phenomenon in the USSR. "They are looking to sell out to employees just like our companies," noted Moyer. In the Soviet scenario, however, it is the City of Moscow which is the divesting conglomerate.

In 1200-2000 Soviet enterprises, an experimental program of "employee leasing" has been implemented. Workers in these enterprises lease plants and equipment from the state and run the facilities as independent operations. The experimental leasing arrangements were started in 1987 without an official declaration or legislation. Because recent laws were passed which set an exorbitant price on the leases, the employee-leased enterprises are looking forward to ownership of the facilities by workers. "The leasing stage is temporary. Either these businesses will be collectively owned by the workers or they will return to state ownership," Logue observed. During their nine-day stay in Moscow, Logue and Moyer visited two facilities

where workers may become owners: the Taxi Fleet Moscow and the "Stroipolimers" Enterprise.

Taxi Fleet Moscow is one of the three taxi cab operations in the Soviet Union which is employee leased. The independence of the Soviet taxi system, companies have neither radios nor dispatchers, lends itself to a decentralized system. And decentralized it is! The 1650 workers run the company through a system of work groups. Each work group, composed of a number of cab drivers, two in each cab, and several mechanics, work together to bring in enough cab fares to cover a basic operating fee (i.e. leasing expenses and the basic wage of each work group participant). Any excess fares brought in go to the drivers; and bonuses are distributed among the work group members depending on each one's individual contribution. Over the last year, the leasing system increased the average employee's income by 25 percent.

Since becoming employee leased, the enterprise has been quite successful. As Moyer put it, "the taxi cab operation has more money than they can use." The firm has accumulated enough rubles to purchase 250 new taxi cabs. Unfortunately only 175 cabs were available for purchase.

Work groups at Taxi Fleet Moscow elect a foreman and a representative to the workers' assembly which in turn elects the enterprise's thirty-one member Board of Directors. This "workers' assembly" system has become the way non employee-leased enterprises in the Soviet Union are governed as well. During the February visit, Moyer -- who is president of USWA local 3372 and sits on the Board of Directors at Bliss-Salem -- had an opportunity to chat with a Soviet counterpart, Vladimir Tsvetkov. President of a new taxi cab drivers union, Tsvetkov is also the director (CEO equivalent) of the Taxi Fleet Moscow Board. In addition, he is a member of the Executive Committee of the local Communist Party. The well-connected director is enthusiastic about worker ownership and has agreed to purchase the operation from the Ministry of Transportation.

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Forty kilometers from Moscow, in the town of Golitsyno, Moyer and Logue visited the "Stroipolimer" Enterprise, which manufactures linoleum, wall coverings and other polymers used in construction. Stroipolimer, which has been employee leased for 18 months, has generated a considerable amount of surplus. When Boris Makharinov, the Director of the 700-employee facility, asked workers about their priorities for using the surplus, they listed 100 million rubles worth of community improvements they wanted by 1995. The firm is committed to use the profits to build a clinic, a sports hall, and to embark on a major housing construction program for employees. They have done this because of a lack of consumer goods in the Soviet Union. Increasing wages or profit sharing is not seen as a clear benefit when the goods and services are not available. Yet, Stroipolimer has increased its average wage from 220 to 360 rubles a month since the employees began leasing the firm.

Makharinov, who is running for a seat in the republic's legislature, asked his American visitors detailed questions about employee ownership structures. He was particularly curious about the allocation formulas for ownership, issues surrounding inclusion of new employees, and financing.

Soviet employee-owned businesses will apparently be "seller financed." The workers will make a down payment generated from profits and the state will lend them the remaining portion at a nominal interest rate.

Logue's visit to the Soviet Union is only one of the many contacts that the Northeast Ohio Employee Ownership Center has had with international scholars and officials interested in employee ownership. In the last year alone, the Center has been visited by individuals from Yugoslavia, Lithuania, Sweden, Northern Ireland, West Germany, and Denmark. Apparently the appeal of employee ownership knows no geographic or political boundaries.

New, Expanded Catalog of Products of Employee-Owned Firms Available

Whether you are in the market for golf equipment or rolling mills, insurance or weld fasteners, vending machine services or automatic guided vehicles, gym lockers or clay extrusion machines, you can buy what you need from forty-one of Ohio's employee-owned companies. Request your free catalog Products and Services of Ohio's Employee-Owned Companies from the NOEOC today.

THE NORTHEAST OHIO EMPLOYEE OWNERSHIP CENTER

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The Northeast Ohio Employee Ownership Center is a university-based outreach program which offers information and technical assistance to retiring owners, buyout committees, labor unions, managers and community development organizations interested in exploring employee ownership. Funded by grants from the Cleveland Foundation, the George Gund Foundation, and the Ohio Department of Development's Office of Labor/Management Cooperation, the Center offers timely information and ongoing technical assistance in situations where there is a threat of job loss. Staff can help locate competent legal and financial advice, will perform pre-feasibility assessments to determine whether employee ownership is a viable option and can assist with financing efforts and business plans.

NOEOC also develops resource materials on employee ownership and participation systems, sponsors workshops and conferences for the general public, holds training sessions for employee owners and facilitates cooperation among employee-owned firms throughout Ohio.

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OTHER ORGANIZATIONS WHICH PROMOTE EMPLOYEE OWNERSHIP

Common Wealth
P.O. Box 6212
Youngstown, OH 44501 (216) 744-2667

Common Wealth provides community education, organizing and technical assistance to facilitate the development of new democratically owned and managed enterprises, to help such existing enterprises grow, and to assist with employee buyouts of closing enterprises.

Cooperative Work Relations Program
71 South Plains Road
The Plains, OH 45780 (614) 797-2535

The Cooperative Work Relations Program is one of six state-supported Centers for Labor/Management Cooperation in Ohio. CWRP staff have expertise in employee-ownership theory and practice, pre-feasibility studies, and training for existing employee-owned companies.

Jobs for People
1216 E. McMillan, Suite 304
Cincinnati, OH 45206 (513) 251-9111

Jobs for People provides technical, financial, and administrative assistance for establishing new firms to employ the unemployed and underemployed within the Cincinnati economy.

Worker Owned Network
50 South Court St.
Athens, OH 45701 (614) 592-3854

Worker Owned Network provides technical assistance and training for unemployed persons to establish businesses which will be part of a network of companies owned and managed by workers.

Employee Buyout at Plymouth Locomotive Saved Jobs, Company

The whirling of motors, sizzle and spark of blow torches, whoosh of hydraulics, and baying of steel grouters fills Plymouth Locomotive's plant with a vibrant, energetic air. And, although much of the machinery is old, the idea driving it is new: employee ownership.

Plymouth, Ohio, a small, rural community with 2,000 residents, two traffic lights, and one restaurant, may seem to be an odd location for an internationally known manufacturer of specialty locomotives, lift trucks, and extrusion machines. Yet, the bold, rustic spirit that serves as a foundation for the 100 percent employee-owned Plymouth Locomotive has been a cornerstone of the community from its earliest days. In fact, an adventurer by the name of George Washington was one of the people who surveyed the land, which became Plymouth.

That pioneering spirit led four employees of Plymouth Locomotive, then known as the J.D. Fate Company, to travel to New York City in 1910 in the first Plymouth automobile. Designed by the Plymouth Truck Company, the car was powered by a four-cylinder engine and a double-disk truck transmission with a chain drive. Although the designers had the foresight to equip the vehicle with a gravity-fed gas tank -- its large cap (8 inch diameter) could accommodate the lip of a three-gallon bucket, in case the vehicle ran out of gas on some dusty country road -- the car blew a cylinder on its return trip and had to be ferried back to Plymouth on a flatcar. Even though the first Plymouth automobile never completed its journey, the first Plymouth-based employee-owned firm plans on persevering well into the twenty-first century and repairing any misfiring cylinders along the way.

The Road to Employee Ownership

A few blown cylinders were a fact of life at Plymouth Locomotive before the employee purchase. It was a struggling subsidiary of Banner Industries which suffered through losses in twenty-three of twenty-four months prior to the ESOP's institution. The financial woes were exacerbated by a long, difficult buyout process, which lasted seventeen months, and a history of acrimonious labor-management relations at the firm. In 1981, Plymouth went through an eighty-one day strike, during which employees were gassed, one worker was run over, and 150 sheriff's deputies had to be called in to maintain order.

During the buyout, however, the United Auto Workers (UAW) played an integral part in helping the process along. It was a difficult seventeen months for many of the facility's employees, though. "All the people thought we'd never get the buyout through. They didn't know what way it was going; but, finally, we got it to go through," said Larry Bailey, local union president at the time of the employee purchase. Involving the UAW in the process was instrumental to its success; Bailey and two or three advisors were part of the buyout committee from its inception.

The union did not oppose the committee when it asked the employees to take a twenty percent wage and benefit reduction and give up seven paid holidays to help finance the buyout. "We did not try to pull the wool over their eyes. We needed to take some strong concessions to survive and the union understood that," said the leader of the buyout committee and the company's director of human resources, Erv Howard. Due to circumstances beyond the employees' control, however, the union was decertified during the buyout process.

Profile: Plymouth Locomotive

Products: Specialty locomotives, heavy-duty lift truck, and extrusion machines

Employment: 127

Sales range: \$12-15 million

ESOP: 100 percent employee owned. Purchased from Banner Industries in 1987.

The concessions enabled the employees to contribute \$400,000 to the buyout; their money bought them stock in the new company. Buying stock, as many employee-owned enterprises know, is only the first step a company takes toward employee involvement. Fortunately, the active role a number of workers played in the buyout effort has been carried into the 100 percent employee-owned firm. "These (production workers) are the people that are going to make it happen; and if you don't realize that, you're in real trouble. It's a credit to the people in the plant that we've done so well," said Howard. Orders are piling up at Plymouth Locomotive, and the firm currently has the largest order backlog in its history.

Another person that was vital to making the buyout happen was Samuel Krasney, owner of Banner Industries, Plymouth's former parent corporation. Krasney wanted to see a deal finalized that would allow the employees to purchase the firm. "Mr. Krasney wanted to sell to all the employees, not just a special group. He gave us the first shot at purchasing the facility," said Howard. Krasney also assisted in the financing by taking out one-and-one-half million dollars in CDs, which demonstrated to the banks he was not just trying to unload the company. State aid was also important; and Ohio Secretary of State Sherrod Brown, a Mansfield native, helped the employee group to obtain state Department of Development money. Between the state grants and a Community Development Block Grant, the employee group managed to raise three-quarters of a

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million dollars. An additional \$65,000 was obtained from Richmond County; and it was utilized to finance the initial feasibility study.

The employees, however, were not the only ones interested in buying the company; and by mid-1986 a management-led group was also trying to purchase Plymouth. Although the firm was struggling financially, it had a well-recognized name in the market place and an attractive product line that could have been easily incorporated into a larger enterprise. Interest in purchasing the company was high because its problems were not as severe as they appeared to an outside observer. "The people who worked here knew the problems. They knew what was needed to turn the company around," stated Howard.

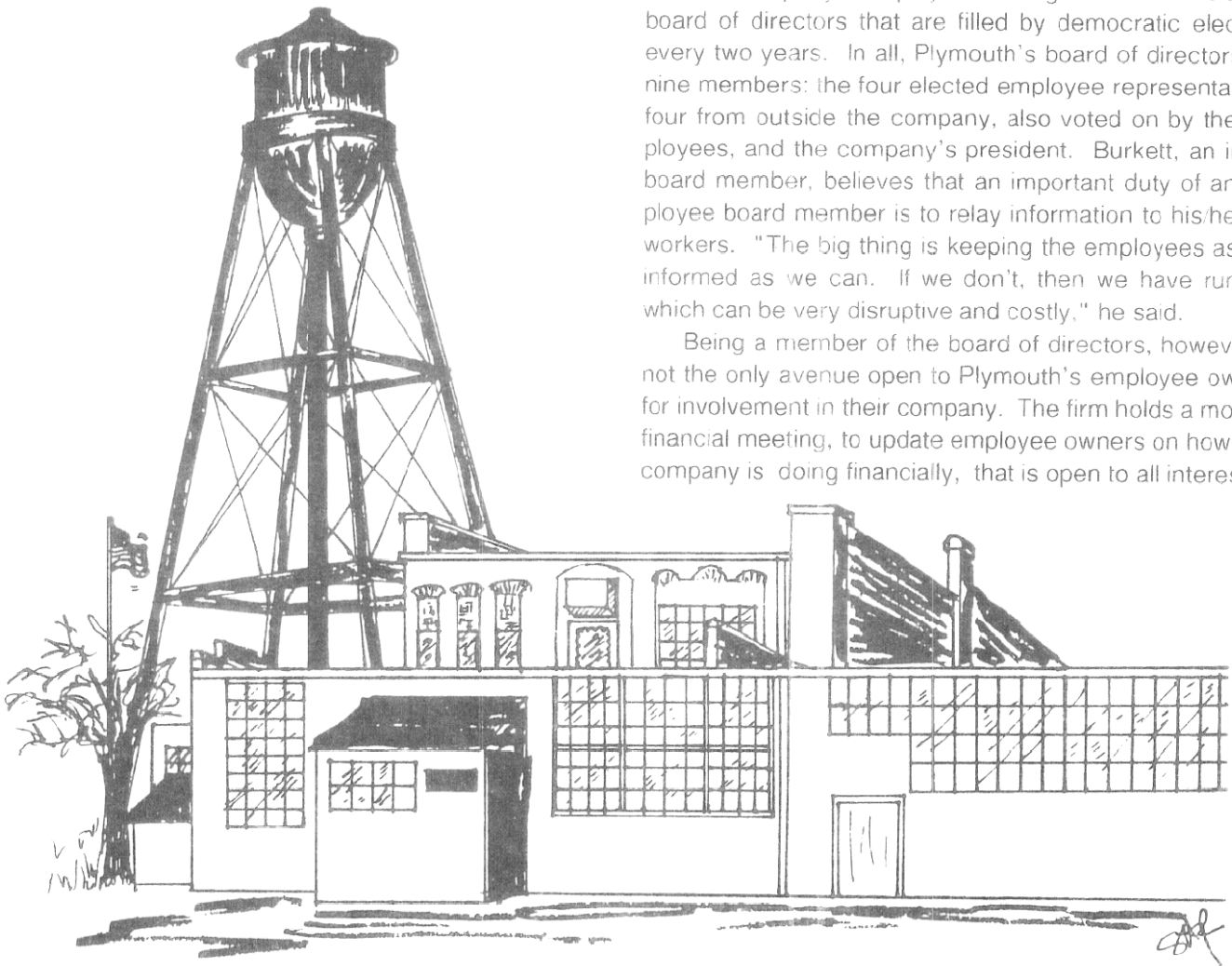
Selling Plymouth to the management-led group could have had devastating effects on the community. Owners not committed to preserving employment may have decided it was not worth the investment to revitalize the company. It would have been easy to sell off the pieces of the 106 year old firm, leaving only a small core of good jobs.

Plymouth Locomotive, in essence, is the only manufacturing facility in town; and it employs six percent of the population. Hence, the employee purchase was a way to anchor capital and employment, and maintain the town's tax base.

In addition to bidding against the management group, the buyout committee had to surmount other obstacles to complete the deal. One problem was that morale ebbed during the apparently endless buyout process. At one point, a few former employees pilfered a set of the company's blueprints and started their "own" business down the road from Plymouth. The firm took them to court and won its case against the fast-fingered employees with the purloined prints. Morale rebounded when the deal was finalized; and employees knew they were now working for themselves. "I think work habits have improved since the employee purchase. Naturally everyone has a little investment in the company; everything they produce helps their retirement," said Eldon Burkett, an engineer who has been with the firm for twenty-eight years. The new enterprise was also fortunate to have Miles Christian come out of retirement to become Plymouth's CEO.

The company's employees were given four seats on the board of directors that are filled by democratic elections every two years. In all, Plymouth's board of directors has nine members: the four elected employee representatives, four from outside the company, also voted on by the employees, and the company's president. Burkett, an inside board member, believes that an important duty of an employee board member is to relay information to his/her co-workers. "The big thing is keeping the employees as well informed as we can. If we don't, then we have rumors, which can be very disruptive and costly," he said.

Being a member of the board of directors, however, is not the only avenue open to Plymouth's employee owners for involvement in their company. The firm holds a monthly financial meeting, to update employee owners on how their company is doing financially, that is open to all interested



employees. It also has a human resource committee--which has several subcommittees, for example, one that discusses employee grievances--that meets monthly. The committee is composed of ten employees from five different departments (two from each one) and meets on a monthly basis. It serves as an intermediary between shop-floor employees and upper management; it has substantial autonomy and is encouraged to make decisions without management intervention. "If the issue can be resolved and no management decision is needed, we just let the committee do it," said Howard. No management personnel are part of the group, but it can call them in to take part in salient meetings. In the future, Plymouth plans on expanding the scope of the human resources committee and to continue trying to get workers more involved in the company. Setting up an apprenticeship program for interested workers is one angle the firm is currently exploring.

These (production workers) are the people that make it happen and if you don't realize that, you're in real trouble

Plymouth's new employees must work at the facility for one year before they can join the ESOP. A new hire also starts off fifteen percent below a senior employee's wage level. During the next seven years, a new worker gradually builds his/her wages up to the top level. After seven years with Plymouth, a worker becomes fully vested and reaches parity, in terms of wages and benefits, with other senior-level employees. The seven-year vesting period and the gradually scaled two-tier wage system were instituted to compensate the original employees for their investment to start up the ESOP.

Plymouth Sees Bright Future Ahead

Despite the successful adoption of the ESOP, the company still has some problems; and it, currently, is trying to develop managers that understand the company and its employee-owned status. One way to accomplish this is by cultivating talent already within the firm. "It's better to grow your own talent than bring an outsider in," stated Howard. One problem with outside managers is that they are unfamiliar with ESOPs and the internal dynamics that ESOPs create in a company; hence, to be successful, they must spend a lot of time and energy learning on the job. Another difficulty that Howard sees with new employee-owned companies is their lack of financial support from a larger firm. There is no "sugar daddy" to bail out the company if things turn sour. Managers need to understand how their company was owned before the ESOP was started; and they must understand the specific nature of their firm's cash flow to be successful.

Although there are some problems, the company's future looks bright. More employees are being hired, more orders are being filled, and, most importantly, the company has survived. Without Plymouth the town would have lost its major provider of jobs, taxes, and stability. With its ESOP in place, Plymouth Locomotive is looking forward to increased prosperity in the next century.

Changes in ESOP Law

The 1989 Budget Reconciliation Act made several significant changes in the tax treatment of ESOPs. These are:

1.) ESOP Lender Interest Exclusion (Section 133)

On transactions finalized after November 17, 1989, lenders can exclude one half of the interest collected on ESOP loans from taxable income, if the transaction meets the following criteria:

- * More than 50 percent of each class of outstanding stock or 50 percent of the corporation's value is owned by the ESOP.
- * Full voting rights are passed through on the stock acquired.
- * The term of the loan is limited to 15 years.

2.) Dividend Deduction (Section 404 (k))

For stock acquired after August 4, 1989, ESOP dividends may be used to repay an ESOP loan provided the dividends are on the employer securities acquired with the ESOP loan. However, the loan does not have to qualify as a 133 loan for the dividend deduction to apply.

3.) Deferral of Gains on Sale to Certain ESOPs (Section 1042)

On transactions completed after July 10, 1989, a taxpayer is required to have held the securities for at least three years before the sale of stock to the ESOP. The deferral of recognition of gain on the securities' sale will then become available.

4.) ESOP Estate Tax Assumption and Deduction (Sections 2210 & 2057)

These provisions have been repealed for estates of decedents dying after July 12, 1989.

NETWORK NEWS

Ohio's Employee-Owned Network Grows

Our greatest fear when developing a fee structure to help defray some of the program costs of Ohio's Employee-Owned Network was that it would discourage new companies from getting involved. Our director nearly fell off his chair when the first membership check came in -- from an employee-owned firm which had never before contacted us. Since then, official membership has grown to thirteen companies.

Furthermore, a number of companies has been supporting Network activities on a pay-as-you-go basis. We are pleased to write that forty-one employee-owned firms were included in the most recent edition of our free catalog: Products and Services of Ohio's Employee-Owned Companies. The catalog encourages employee-owned companies to purchase from each other and is updated periodically. New employee-owned companies are always welcome to send in their descriptions to the NOEOC.

Employee Owners Recharge Enthusiasm

Immediately following the formal establishment of the Network was Ohio's first *Employee Owner Leadership Development Retreat*. Thirty-five employee owners from twelve companies spent an entire day toning up their skills for communicating and participating in committee meetings, an evening socializing and exchanging experiences and ideas with new acquaintances, and a half day sharpening their capacity for dealing with financial information. Excluding comments about arctic temperatures in the meeting room, the most common suggestion for improvement was to lengthen the program to allow for additional time to learn about each others' firms and to practice with the new financial concepts. A number of the firms which sent participants requested that we not wait too long before planning the next retreat. Given its positive reception, the Center has scheduled the second Employee Owner Leadership Development Retreat for June 8-10 again at the Mohican State Park Lodge. The added day will allow employee owners more time to get to know each other while taking advantage of the numerous lodge facilities.

To allow for a greater diversity of experiences while maintaining a personal atmosphere, firms will be limited to four participants. Network members pay only the cost of room and board for two days: \$180. If space is available, non-members can participate for \$315. Although the official registration deadline is not until May 2, we recommend that interested companies make their reservations early since the total number of participants is limited.

Employee Owners Meet For Forums

Representatives from sixteen employee-owned firms came together at Kent State on December 4 to discuss the

issue of repurchase liability with Duncan Harwood of CPI Qualified Plan Consultants. This was the first of a series of periodic forums focusing on issues of ESOP administration. A number of methods were discussed to prepare for the obligation to buy stock back from retiring ESOP participants. Companies with suggestions for future topics should contact the Center. The next ESOP administration forum will be on May 31. Non-members pay \$100, and members can participate free of charge.

On February 15, twelve employee owners from seven companies participated in the eighth session of a training series for hourly employees who hold seats on their board of directors. The primary purpose of the board training program is to help employee owners understand their role and carry out their responsibilities more effectively. This session focused on recessions: characteristics, impact on cash flow, and consequences of different strategies for dealing with them. Participants grappled with some simulated financial statements, identified problems, and discussed and evaluated options. Already, forty-four employee owners from fourteen companies have participated in this program which is free to Network members. New participants can get more information by contacting the NOEOC.

On March 22, CEOs, personnel managers and communication committee members came together for the fourth Participation and Communication Forum. Participants continued earlier discussions about ways to improve and implement participation structures and communication systems at their companies. The primary focus of the March session was participation training packages available for Ohio employee-owned companies.

New Companies Are Always Welcome

So far, more than sixty of Ohio's estimated 275 employee-owned companies have participated in some of the NOEOC's projects; forty-one are in the catalog and thirteen have become members of the Network. If your firm would like to become involved in these activities with other employee-owned companies committed to business innovation, participative management, and inter-firm cooperation, call Dan Bell at the Northeast Ohio Employee Ownership Center for further information.

Company Update

North Coast Brass, a participant in past Center activities, shut down operations in January after heavy losses. Employee owners hope a proposed sale of the facility to American Brass will lead to resuming operations.

EMPLOYEE OWNER FORUM

Fastener Industries' Jim Carroll Speaks Out

A Better Way of Doing Business

When a company becomes an ESOP, it's not just a one-time event where the employees acquire stock. Hopefully, it will be an ongoing process where the employees can create for themselves a better place to work and prove that employee ownership is a better way of doing business.

It's a lofty goal, but at Fastener Industries, I think we're on our way to achieving it.

It's hard to believe it's been ten years since Rich Biernacki, then treasurer of Fastener Industries, approached us with a plan whereby we could buy the company from its long-time owners, the Whelan and Doheny families. There had been rumors the company was for sale, but the thought of owning and managing our own company was something we had never considered. There wasn't a handful of us who had even heard of an Employee Stock Ownership Program, and even fewer who thought of ourselves as business men and women.

Now, ten years later, we can't think of any group better able to manage any company than its employees. It has long been accepted at Fasteners that employee ownership is just a better way of doing business. But the philosophies and guidelines we take so much for granted today had to be implemented and made into our company's policies at what seemed like a snail's pace during our formative years. Fortunately, Biernacki had the foresight and determination to dare to be different. And yes, we are different.

From day one, Biernacki promised that all employee owners would vote on all major issues -- including the election of the entire board of directors. That means nobody has an inside track, not even the CEO, and there are no appointees to the board.

I personally have had to debate the wisdom of this policy several times with directors from other ESOP companies. Most insist that banking, legal or even prior board experience is a prerequisite to serving on a board of directors. To that, I would suggest that most majority owners, executives and CEOs are just covering their rear ends and that they don't have the guts to stand for election. On one

Jim Carroll is the Plant Manager of Modern Fastener's Division of Fastener Industries in Brookpark, Ohio. These reflections on employee ownership were part of a speech Carroll delivered to Fastener's employee owners during National Employee Ownership Week last October.

Profile: Fastener Industries

Products: Steel fasteners for the metal working industry.

Employment: 170

Sales: \$19 million

ESOP: 100 percent employee owned. Purchased from the Whelan and Doheny families in 1980.

hand, they preach that employee ownership works and that employees are capable of making major decisions; but when the chips are down, they only allow the employees token representation on the board. It is estimated that only 10 percent of board members in ESOPs are employees. I think that is a shocking statistic.

I think some of the important issues that have to be addressed by most of the newer ESOPs today are: ownership, participation and responsibility. For example, are you an owner if you own stock in a company, but are not allowed (or don't want) to take part in decision making (or as it is sometimes called, participative management)? You can't tell employees they are owners if you don't let them participate in how the company is run. Of course, this depends somewhat on management's willingness to actively involve worker owners in the decision-making process. It just makes sense to accept that people doing specific jobs are the ones most qualified to make decisions about how these jobs are done. Any manager who doesn't realize this doesn't belong in an ESOP.

Lest I give the impression that we at Fasteners have solved all of these problems and that we are all one big happy family, let me set the record straight. Like every other company of comparable size or larger, we have our five percent who are cynical and who don't take part. If we listen to them (and we must listen to them), they will insist that they have no input into decision making. The truth of the matter is they seldom have solutions, just complaints. And when they're proven wrong on an issue, they just move on to another. What it boils down to is that they are cowards. Unable to lead, they criticize all leadership. And by doing that, they cheat themselves, and their partners, out

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of their input.

After making these charges, it seems only fair to take a good look at how we at Fasteners shape up. We can do that by answering some of the questions most commonly asked about ESOPs.

1.) *Has the ESOP been good for business?*

Obviously, with sales at two-and-one-half times what they were ten years ago, the answer is yes. And there have been improvements in productivity and quality.

After World War II, northern Ohio was considered the fastener capital of the world. Now, with seventy-five percent of all fasteners being imported, we are one of only a handful of fastener manufacturers which are not only staying in business, but doing very well.

2.) *Has our ESOP resulted in better information sharing?*

Everyone receives a full financial statement each quarter. The CEO, managers and board members are available at all times. We hold regular manager-employee-owner meetings and twice a year all employee owners meet with the CEO during a series of roundtable meetings. However, the best communication tool of all is the availability of face-to-face interaction with each employee owner's supervisor or board representative, whenever they want it.

*It is estimated that only 10 percent of
board members in ESOPs are employees.
I think that is a shocking statistic*

3.) *What about stock distribution?*

We have always distributed the maximum amount allowed by law.

4.) *What about stock growth and financial gain?*

Through nine years of appraisals, we've seen our stock grow to be worth five times what it was on day one. Those who have been around since the beginning have seen their accounts grow 600 to 700 percent, while cash dividends have been an average of 4 1/2 percent of stock values per year, over the last three years.

5.) *What about vesting schedules?*

We don't believe in them. All new employees become fully vested in the company after only thirty days. We feel vesting tables are immoral, and at best, they only hold onto employees who are not happy anyway.

6.) *What about distribution upon termination or retirement?*

Upon leaving or retiring, participants can keep their stock in the trust or opt to take cash for any portion or all of it.

7.) *What are some areas for improvement at Fasteners?*

On one hand, I believe we at Fasteners are owners in every sense of the word. And because we're owners, management has to treat all employee owners as such. But that's a two-way street. More and more, we must learn to ACT as owners. If we really want to take part in decision making, we are obliged to understand the decision-making process: for example, cost justification, inventory control, financial statements, et cetera.

We must realize that our success to date does not guarantee future success. We must constantly recognize and continue to do what works for us, as a team. We must build on our strengths and improve where we are weak.

I think we are different from a lot of other ESOPs, and I would dare say we are better than most. But we have a lot of growing left to do and a lot of potential left to be fulfilled.

Statistics from studies by the National Center for Employee Ownership seem to prove that companies which practice participative management do better than companies that don't. At Fasteners, this has been our experience.

Most of the credit for this must go to our CEO, Rich Biernacki, who is always available, on the shop floor, and willing to discuss any aspect of the business, from cash flow to acquisitions. He promised to do this from the beginning and, as far as we are concerned, he has delivered.

Employee ownership is, of course, a partnership that depends on teamwork. But any business, if it is to be successful, needs leadership. In Biernacki's case, it has been his style to place more emphasis on management philosophies and corporate culture than on tax savings. In other words, if we are allowed to participate and we are treated as owners, we will be successful. And that means we will be more satisfied with our business. People are not considered "hired help," but rather "business partners," and, as such, are entitled to take part in decisions which, in most companies, would be left to management. Of course, management must be willing not only to share this responsibility, but must also encourage it.

Let's face it: managers are not necessarily original thinkers or smarter than anybody else. A decent manager in an ESOP will realize that his role is really that of a coordinator, to see that the person who knows the most about a job has the most influence as to how that job is done. Managers are not necessarily endowed with the wisdom of Solomon, the patience of Job or the compassion of Jesus. Hopefully those taking direction from them will realize their managers are their partners too.

In closing, I would like to suggest that for an ESOP to work it must decide what is best for it as a company and not be tempted to follow the leader because it has heard that somebody else has been successful with a different set of values or rules.

Maybe we spend too much time talking about our communication, participation and quality programs instead of just doing it.

ELWELL-PARKER ELECTRIC MOVING FROM FAMILY TO EMPLOYEE OWNED

The Elwell-Parker Electric Company is one of those specialty, family-owned firms that few people notice except the family, satisfied customers, and the employees -- as long as it operates successfully. The company's Cleveland manufacturing operation occupies the better part of a city block on St. Clair, and it has provided steady employment for a skilled work force for almost a century, as well as a good income for the Towson family, which has owned a controlling interest in the company since 1910. But what happens when the last family member active in the company gets ready to retire without an obvious successor?

For three generations, Elwell-Parker has been synonymous with the Towson family. Morris Towson went to work as an electrical engineer in 1893 for what was then named the Brownhoist Company, which manufactured equipment to load and unload ore boats. The company acquired its current name from a joint venture with the English Elwell-Parker Electric Company to manufacture electric motors, and grew rapidly from motorizing the Pennsylvania Railroad's baggage handling operation. Morris Towson eventually acquired control of what had become a lift truck operation by buying out the English in 1910, and Elwell-Parker has been family owned and operated ever since. Management of the company passed from Morris Towson to his son Sheldon in 1941 and to his grandson Pete (Sheldon Jr.) in 1958.

Like every successful manufacturing operation, Elwell-Parker has changed with the times. It continues to build material handling equipment; but today it produces heavy lift trucks for special uses, such as handling aircraft carrier propellers in naval shipyards, and automatic guided vehicles for steel and aluminum rolling mills. The firm, which employed 350 in the 1970s, was hammered in the early 1980s: the recession and the over-valued dollar cost it much of its export market. While the company survived because of its conservative financing policies and because of the family's commitment to the business, it shrank. Today it employs forty-seven salaried and eighty-one hourly in Cleveland and another eighteen in its Detroit dealership.

The Succession Crisis

The day comes in every family-run firm when it is time to seek a successor and there is no child to follow in the father's footsteps. When Pete took over the presidency of Elwell-Parker from his dad, he was the youngest CEO of a major firm in Cleveland. But the years passed, and as he entered his sixties and began to think about who would be his successor, it was apparent that none of his four daughters showed any inclination to step into his shoes. Moreover, with close to half the shares outstanding held by individuals in their eighties, the company faced a future need to cash out their heirs. Given the firm's marginal profitability during the 1980s, that payout would impose a debt burden that would threaten its survival.

So what should the responsible owner do? The conventional answer, as any MBA will tell you, is either to liquidate the company or to sell it as an ongoing business to an outsider, whichever brings the highest price for the family shareholders.

With a huge inventory of replacement parts, substantial fixed assets, and its recent weak operating results, there was some reason to suspect that Elwell-Parker might be worth more through orderly liquidation than if sold as an ongoing operation. But, as Pete Towson subsequently told his employees, the family philosophy had always been: "To build the world's best large lift trucks is something special. Anybody can liquidate a business." Liquidation had nothing to recommend it except the money it would bring.

Selling the company as a going concern was the second obvious choice. Though hard pressed by the recession of the early 1980s and the overvalued dollar, Elwell-Parker had an excellent reputation and was virtually debt free. It clearly could be sold. Indeed, offers had been made for it with some regularity. A competitor acquired 9 percent of the stock in a surprise purchase from a major shareholder some years ago. Given the company's assets, it was a potential gold mine for a buyer willing to drain the Cleveland operations and move production south or off shore. The most serious proposal to buy the company in recent years was based on retaining some operations in Cleveland while moving the labor-intensive manufacturing operations to South Korea.

Keeping Elwell-Parker in Cleveland was simply unattractive to any outside buyer interested in maximizing his return. "We regularly have offers from other companies to buy us, but we are worried they would split the company up and wipe out a lot of jobs," Towson told the *Plain Dealer*. "That's why we decided to offer it to our employees."

Selling family shares to the employees through an Employee Stock Ownership Plan (ESOP) offered an alternative to either selling to outsiders or to liquidating. It was an alternative that Towson found attractive because it fit family attitudes.

The attraction of selling to the employees was not just emotional: federal tax law provides a substantial tax break. Provided that the employees end up holding at least 30 percent of the stock in a closely held company at the end of the transaction, the sellers can defer capital gains taxes by rolling the proceeds of the sale over into qualified replacement securities. Given the large capital gain that family members faced paying taxes on -- the original value of the stock for tax purposes was roughly one tenth of the book value in 1988 -- a sale to the ESOP and use of the capital gains rollover permitted the family to sell at the ESOP valuation price, which was below previous offers, and still come out better after taxes.

See Elwell-Parker, page ten

Thorns Among The Roses

Selling to the employees involved three problems.

The first was the existing company's ability to handle debt. An ESOP purchase of 100 percent of the company or even of the 80 percent of the stock owned by the family exceeded its financial capacity. To leverage the firm excessively was to risk its survival. A partial sale to the ESOP with a binding buy-sell agreement for the ESOP to acquire the remainder of family holdings at a mutually agreed price at some future point would have been attractive, but simply isn't possible under federal law. A "binding" buy-sell agreement for the future cannot legally bind an ESOP to pay more than the value of the stock purchased at the time the purchase is made, although it can bind the family to sell at less than the stock is worth. Hence the family was committed to an extended partnership with the ESOP.

The second problem was that although the family held about 80 percent of the stock, the remainder was widely dispersed. Half of that was in the hands of a competitor; the other half was spread among about eighty individuals, including former employees and some people who had bought shares as an investment. In fairness, an offer to the family needed to be extended to these minority shareholders.

The third problem was the possibility that, under these conditions, a hostile offer by an outsider might have substantial appeal. This suggested a need to keep a possible sale to employees under wraps until the board of directors had made a final decision and then proceeding with all possible speed. That precluded involving employees in preliminary discussions about the shape of the ESOP, and the need for speed virtually guaranteed that employees would regard the proposal with suspicion. The fact that making the tender offer took longer than expected and that the ESOP was first established in 1988 with a contribution of existing treasury stock made many workers suspect that the skeptics had been right.

Picking Flowers without Getting Stuck

Putting an ESOP in place takes time. Between the first discussion among Elwell-Parker's board members and the final decision to make a tender offer for the outstanding shares, a full year elapsed. That time was spent analyzing the firm's ability to carry debt, getting an ESOP valuation done (by Ameritrust), drawing the ESOP documents (by Squire Sanders), and reaching an agreement to borrow the requisite sum (from the National Cooperative Bank).

Elwell-Parker's board eventually decided to make a tender offer on the outstanding shares, but only to buy a proportion of the shares tendered to get the ESOP up to the 30 percent ownership necessary to trigger the tax break on the capital gains rollover. In response to the tender offer,

almost 90 percent of the shares were tendered, both because of family support for the ESOP and because dividends per share were cut by 28 percent to help guarantee loan repayment.

Given the speed with which the ESOP was put in place once announced (so as to head off a possible hostile bid), hourly workers were initially skeptical of the proposal. An extended orientation session for union committee members in mid-October 1988 produced fairly satisfactory answers to tough questions. Company president Towson and NOEOC director John Logue fielded hostile as well as skeptical questions at the subsequent initial information meeting in the shop for all employees on October 27. IBEW Local 1377 business manager Gerald Krajcer forwarded the plan to the union's benefit attorney for scrutiny; back came the verdict that, since there were no wage concessions, the effect of the ESOP was to add about 5-6 percent of base pay to the total employee compensation package. Hourly employees followed up the next week with further discussion at a well-attended union meeting at which they ultimately voted unanimously to go ahead with it. That vote was crucial for the ESOP, since National Co-op Bank rules require employee approval of any ESOP the NCB finances. Possibly more important, however, was the active, informed commitment by employees to support the plan.

A third, and final, issue was that of control. Board of Director members were reluctant to add one or more employee representatives to the board. The three-member ESOP trustee committee was designed to have an hourly seat, but the union was initially reluctant to fill it because of the fiduciary responsibilities that would fall on the union representative. The company therefore appointed a management representative to hold the seat until the union felt comfortable appointing a member. Thus the legal institutions governing the new ESOP began without hourly representation. Both employees and management expected that this arrangement would change eventually; it did: the union's chief steward was appointed to the third seat fifteen months later.

The focus of employee participation at Elwell-Parker, instead, was through a directly elected plant advisory committee which was put in place simultaneously with the ESOP. This committee is made up of six elected -- three hourly and three salaried -- representatives and two ex-officio members. It meets as conditions require; recently it has been meeting on a weekly basis. The hourly committee members elected from the union local included some who had been eloquent in expressing their skepticism. The election of the three white collar steering members was an even more novel experience; it was the first time that salaried employees at Elwell-Parker had exercised a second ballot which was binding on a management question. The chief shop steward and a management representative serve as ex-officio members.

Profile: Elwell-Parker Electric

Products: Specialty heavy lift trucks and automatic guided vehicles for material handling in rolling mills

Ohio employment: Eighty-one hourly represented by IBEW Local 1377; forty-seven salaried

Sales range: \$12-15 million

ESOP: currently 30 percent; expected to grow to 90 percent as company's financial status permits additional stock purchases from individual shareholders

Elwell-Parker as an ESOP Company

ESOPs are no patented panacea to every hardship of business. Shortly after the Elwell-Parker ESOP was announced, a major customer managed an extended delay in paying its bill by pointing to a controversial paragraph in the sales contract. ESOP or no ESOP, that hurts the company's cash position.

Elwell-Parker set up an ESOP in November 1988 with treasury stock, because of the company's temporary cash problem it did not buy in family stock until the subsequent May. As a consequence, says company president Pete Towson, "the ESOP initially didn't mean much to anyone." The ESOP steering committee foundered, not knowing what role it had. "It was dead in the water, and I found that pretty frustrating," admits committee chairman Ron Wank. It was first after the initial distribution of stock -- and the dividends on the stock -- in the third quarter of 1989, almost a year after the ESOP idea was presented to employees, and the subsequent distribution at the end of the fourth quarter that Towson thinks "the ESOP became real" for employees.

The steering committee's work picked up in the fall after the first stock distribution. Wank was invited to the fall board meeting and subsequently invited one of the outside directors to meet with the committee. Wank feels that the company's hiring Jim Ford, son of one of the family board members and a Harvard MBA, to assist it on a consulting basis helped the committee develop needed momentum.

In February 1990, the committee scheduled an ESOP day that included not only a discussion of the ESOP, but also tours of the facility for all employees with presentations by each department on its tasks and functions. It was the first time many employees had gotten a sense of the flow of jobs through both shop and office from bidding, design, and engineering through machining, fabricating, assembling and shipping; one thirty-year shop veteran saw the sales department for the first time.

"A lot of people got really involved and did a superb job," comments Wank. "I think it built up some understanding of how each job affects the company as a whole."

The committee is following up with weekly brown bag lunches where department heads explain their work and problems to interested employees. An open house for employees' families followed by a cookout is tentatively planned for June.

IBEW chief shop steward Harry Schaefer points with some pride to one early steering committee initiative before the stock allocations began: to clean up an outside area and put in a basketball court and picnic tables. The company paid for the materials; the employees provided the labor. Of course, playing basketball at lunch or after work doesn't require employee ownership, but the employee initiative was the first sign that ownership really meant something to many workers. "The guys use it all the time," says Schaefer. "Even in February -- when the weather's good."

A year and a half after the idea of the ESOP was first presented to the union, Local 1377 business manager Gerald Krajcer has a positive view of the results. "The Elwell-Parker ESOP has been working out real well," says Krajcer. "When I went through the plant last, our people seemed happy with the results. They've gotten two stock distributions and two dividend checks, so they think it's paying off. We put the chief steward on the ESOP trustee committee last week, so that's working out as well."

Perhaps the key factor that distinguishes Elwell-Parker as an ESOP company in Krajcer's view is the fact that the company has opened all its financial records to employees and the union. "It's the only plant I've got under contract that sends me a financial statement every quarter." Far from putting the company at a competitive disadvantage, Krajcer argues that the new openness about financial issues is responsible for productivity improvements because employees know what the actual state of the company is.

Employee views of the business have been slowly changing. "Everything doesn't happen overnight," says Schaefer, "but people are gradually getting more involved." Schaefer points particularly to the company's policy of making quarterly allocations of stock. "It may cost something to administer, but everybody realizes that they are getting something."

Elwell-Parker's quarterly stock distribution is accompanied by detailed information on each employee's personal ESOP account, the quarterly stockholder report, and a dividend check. The company also holds a quarterly meeting with all employees to discuss financial results. "We're trying to do some educating," comments Towson. "I'm satisfied that it's worth the lost work time."

Training employees in the basics of finance and other aspects of the company's business is clearly no quick fix for business problems. Instead it is a long-term investment in better informed employees, who are prepared for the day when the company can finance the acquisition of the remainder of family stock by the employees.

"We're far from having all our problems resolved," comments Schaefer, "but we are heading in the right direction."

NOEOC HOLDS FIFTH ANNUAL EMPLOYEE OWNERSHIP CONFERENCE APRIL 27

The Northeast Ohio Employee Ownership Center (NOEOC) will hold its Fifth Annual Employee Ownership Conference on Friday April 27, 1990 at the Days Inn Airport, 16501 Brockpark, Cleveland, Ohio, from 8:30 am to 5:00 pm.

As more than 275 employee-owned, Ohio-based firms demonstrate, employee ownership can be a valuable tool to save jobs, preserve businesses, and keep tax dollars in Ohio. This year's conference will focus on how managers, workers, unions, community development professionals, and government officials can use employee stock ownership plans (ESOPs) and other forms of worker ownership to strengthen the local economy.

The conference offers something for everyone -- from the ABC's of ESOPs to advanced sessions for those familiar with employee ownership. Among the topics featured at the conference are workshops that will provide an overview of the tax advantages of ESOPs, explain how a retiring owner can sell a business to the employees, discuss decision making in worker-owned enterprises, examine how employee ownership can be used as a strategy for labor and community groups, and a roundtable discussion for worker owners.

The Conference fee is \$40 pre-registered by phone or mail by April 15 or \$75 at the door. Registration includes lunch, refreshments, parking, and all conference

materials. Group discounts are offered and some scholarships are available for low-income or unemployed persons.

For more information on the conference, contact Jim Bado, NOEOC, Department of Political Science, Kent State University, Kent, OH 44242, (216) 672-3028.

Other Upcoming Events

April 18-20, 1990, San Francisco.

The National Center for Employee Ownership's "9th Annual Conference on Employee Ownership and Participation." For more information call Karen Young at the NCEO (415) 272-9461.

May 31, 1990, Kent State University

"Forum on ESOP Administration," (topic to be announced). a program for Ohio's Employee Owned Network. For more information call the NOEOC at (216) 672-3028.

May 23-25, 1990, Washington, D.C.

The ESOP Association's annual convention. For more information call the ESOP Association (202) 293-2971

June 8-10, 1990, Mohican State Park

The second, "Employee Owner Retreat," a two-day training seminar for employee owners sponsored by Ohio's Employee Owned Network. For more information call Dan Bell at (216) 672-3028.

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