OWNERS AT WORK

THE NORTHEAST OHIO EMPLOYEE OWNERSHIP CENTER

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SHARPSVILLE QUALITY PRODUCTS:
1980s problems, 1930s tactics and 1990s solutions

To many in the Shenango Valley, which bridges the Ohio/Pennsylvania border, a day of fishing on the nationally known Shenango Lake is adventure enough. According to *Trailer Life* magazine, "if you're interested in bragging size crappies, Shenango is the place to go." But if you are interested in an inspiring story about a community taking control of its own future, go about six miles south of the lake to Sharpsville Quality Products.

Sharpsville Quality Products (SQP), a new 53 percent employee-owned company recently featured on the ABC Nightly News, was purchased out of bankruptcy by its employees on April 11. After a long difficult buyout, during which the plant was closed for nearly a year, the new ingot mold manufacturer began pouring steel on February 9. Since then the company and its employees have hardly taken a breath to enjoy their new beginning. Considering the future outlook for such steel-related firms, many analysts would say that they should take a few moments to catch their breath and to regain their senses.

1980s PROBLEMS

Sharpsville Quality Products began the 1980s as a family-owned ingot mold producer. The local owners had maintained stable employment and showed concern for the community, including financing renovations of the local junior high school football stadium. According to twenty-year employee, Jeff Burns, the "family" feeling went far beyond the corporate ownership. "Many of these guys went to school together. They grew up together. It was close knit. Like family, people helped each other out." When the owner, William Snyder II was ready to retire and had no successor, the plant was sold to the Aloe family of Pittsburgh in a leveraged buyout (LBO) and became part of Shenango Incorporated. The leveraged buyout trend from the 1980s had reached from the centers of world finance to quiet North Sixth Street in Sharpsville, Pennsylvania. Unfortunately, the out-of-town owners did not know the community, nor did they seem to care.

When Shenango Inc. took over, the plant had 300 employees, most of whom were represented by the United Steel Workers of America (USWA), and was one of the area's largest employers. Due to Shenango's highly leveraged position and difficulties in the steel industry, many employees in Sharpsville believed that the new owners would scrap the plant for cash and leave the already economically hard hit community with another wound to lick. But in the late 1980s, the steel industry began turning around and, despite the leverage, Shenango began making money. The unexpected turn around precipitated two crucial changes: the parent company began purchasing other ingot-mold foundries with the goal of buying up market share and management decided to embrace "employee participation" at the Sharpsville facility.

> *Maybe they ought to close the whole damn thing down and let the guys get on with their lives.*

The expansion got out of hand and caused serious financial problems at Shenango. In 1989, the company became so overextended that the Steelworkers used their contract to make the company end its expansion. Meanwhile, the decision to embrace participation gave USWA shop steward Jeff Swogger the opportunity to learn about the business. The information he gathered would be crucial to the buyout effort years later.

Nineteen ninety was a tough year for the steel industry and the impact was felt at Shenango. The parent company's heavy debt load and the industry downturn led to Shenango's closing of many local and international plants. However, thanks in large part to the USWA local, the Sharpsville plant remained competitively strong. Swogger, the new Steelworkers local president, and the rank-and-file had embraced participation, which had saved the company large sums of money. For example, the Workman's Compensation Committee had reduced the number of claims from twenty nine to seven by putting people back to work on light duty.

But shop-floor cost committees, employee participation and the local union's creative money saving plans were not enough. Lacking cash for capital improvements, and needing to pay for corporate overhead, the Sharpsville plant began looking like it, too, would close.

1930s TACTICS

On December 14, 1992, when Shenango finally filed for Chapter 11 bankruptcy protection, few of the workers were surprised. Sharon Steel had been a major customer, and it had recently filed for bankruptcy. Requests for concessions quickly followed Shenango's bankruptcy filing. The give backs, company officials said, would allow the plant to stay open during the reorganization. The concessions, mainly work-rule changes, instead of wage or benefit reductions, were granted. According to Swogger, these changes amounted to more than eleven dollars an hour in savings to the company. But they were not enough; the announcement came on March 2, 1993 that the plant would close in three days.

To some Shenango employees, this was the final straw, "Maybe they ought to close the whole damn thing down and let the guys get on with their lives," said one 59-year-old employee. But to Swogger, this was a new beginning. He felt that the employees had done their best to make the plant profitable for the owners; "We tried all we could, but it wasn't enough," said Swogger. And, like so many other shutdowns, the impact of the closing went far beyond the USWA workers who were losing their jobs; it was one more economically damaging blow to the struggling Shenango Valley. "We sat back and watched what happened... thousands of jobs were lost, shutdown after shutdown," Swogger stated. Swogger and some of the employees decided that enough was enough and it was time to take control.

For forty-two days, through the blizzard of 1993, the employees occupied the plant.

Swogger had used the employee participation effort to learn about the plant. Now, he and the other USWA local leadership were convinced that the employees could buy the plant and make it profitable. "We had talked about this," Jeff Burns, USWA local Treasurer said, "the buyout was a fall-back plan." The USWA leadership understood that they needed to organize a buyout committee, but the first thing they had to do was prevent the liquidation. If the machinery was moved out, there would truly be nothing left to buy. So the Steelworkers staged a sit-in to prevent the removal of the assets and to force Shenango, its secured creditors and the bankruptcy court to take the employee buyout effort seriously.

For forty-two days, through the blizzard of 1993, the employees occupied the plant. Supported by the local community and eating donated food, the workers steadfastly remained. The sit-in became a focal point for the community, which had lost more than 10,000 industrial jobs in the previous decade, including 2,700 at Sharon Steel alone. In this "whole atmosphere of decline," a local Pastor, Art Fuller of the First Baptist Church, had been looking for a way to instill hope in the community. Fuller saw the Sharpsville buyout effort as a great opportunity for social, economic and spiritual renewal. "If people can see that they can do this [the buyout], they can do more and go on to bigger projects," Fuller said. "The valley obviously needs life and it can come together." The sit-in started to gain support and people began to believe that if they decided to do this, then it could be done. Swogger, Fuller and other local ministers established the ANB (A New Beginning) Trust to collect contributions and loans from the community to help the buyout effort.

The community support became vital to the buyout effort, but incredible barriers still remained. The buyout committee had no willing seller, the company was in a declining market and the new firm was an unlikely candidate for financing. Each of these factors is usually enough to kill a buyout effort. "It's tough swimming upstream," remarked long-time Shenango employee Vic DiGiacamo about the buyout, "but the salmon have been doing it for years." The employees demanded a meeting with the owners and major creditors of Shenango to discuss the possibility of an employee buyout. The sit in and its extensive publicity got the employees a meeting, followed by purchase negotiations. On April 4, Mellon Bank, Shenango's owners and the buyout committee achieved an agreement in principle to sell to the employees and eleven days later a letter of intent was signed, thus ending the sit in.

1990s Solutions

The employee buyout began in those cold days of March 1993 as the group created a willing seller, but financing was still very questionable. The daunting task of finding money for the buyout

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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 Ohio Department of Development's Office of Labor/Management Cooperation and the John D. and Catherine T. MacArthur Foundation and contributions from both Kent State University and the companies that comprise Ohio's Employee-Owned Network, 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, and will perform pre-feasibility assessments to determine whether employee ownership is a viable option.
The NOEOC also develops resource materials on employee ownership and participation systems, sponsors workshops and conferences for the general public, develops training programs for employee owners, facilitates cooperation among employee-owned firms throughout Ohio, and assists international efforts to privatize businesses through employee ownership.

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Shenango Valley residents show their support by forming a human chain from the then closed Shenango plant to the Sharon Steel plant.

buyout committee still needed to find the remaining few million dollars.

On November 11, 1993 the bankruptcy judge approved the sale of the Sharpsville Shenango plant to the new company, Sharpsville Quality Products. Still short of cash, the buyout committee, led by Anderson and Swogger, sought three separate commercial ESOP loans for $250,000 each, backed by the Small Business Administration. They received a commercial revolving line of credit, equity investments from a New York Investment group and perhaps most important, $1.3 million of bridge financing from another equity investor. The bridge financing allowed the company to start up and acquire assets and inventory. Once the plant was operational, the details and documents of all of the other financing could be written and signed. Without the bridge financing, it would have been impossible to pull all of the public and private financing together.

did not stop Swogger and the buyout committee. "We're tired of looking at the problem," Swogger told a crowd gathered at the plant gates, "Now we're searching for the solution. We're going to make it happen in Sharpsville." Like the salmon swimming upstream, the Steelworkers of local 1032 and the Sharpsville community began the long struggle to make the buyout happen.

Two things occurred which made securing the financing possible. Inspired by the sit-in, local ministers had collected $250,000 of pledges from the community to help the buyout. In addition, Ronald Anderson, an acquaintance of Swogger's who had read the extensive news reports, offered to help the buyout effort. Anderson had helped build Advanced Monobloc, a successful local company, and was experienced in turnaround situations. Together, Anderson and Swogger began arranging the millions necessary to buy the plant. With a promising feasibility study prepared by Working Equity, the assistance of the Steel Valley Authority, and the single-minded commitment of Swogger and Anderson, the public, commercial and private financing began slowly falling into place.

The final deal included fourteen separate entities. The public sector played an instrumental role in making the buyout possible. The Sharpsville council, faced with the likely loss of $63,000 annual tax income, promised $193,000 to help reopen the plant. The Shenango Valley Industrial Development Corporation backed a $550,000 loan from the Pennsylvania Industrial Development Authority. The ANB trust raised $250,000 which it loaned to SQP. The Sharpsville community committed $196,000 of community development block grant money. The state and steel valley enterprise development zones committed to $500,000 and $100,000 respectively. This was more than enough to meet the agreed upon purchase price of $1.28 million. All of these loans were contingent on a solid business plan which called for $5 to 6 million for start up and diversification costs. Therefore, the

On December 24, 1993, the deal was done. It had not been easy, in fact, many of the people involved had sacrificed other parts of their lives to make it happen. But the sacrifices paid off, the buyout committee had managed to pull it all together and fulfill the commitment they had made nearly a year before: to make Shenango's closing into a new beginning. As Swogger said at one of the original rallies, nine months before, "If you do what's right and you do what's in your heart, and never quit, and persevere, Shenango Inc. is gonna be running again." The employees had done it, now they owned it. Their commitment had given them control over their jobs.

A New Beginning

"Commitment" says a sheet of paper taped to the wall behind Swogger's desk, "is what transforms promises into reality." Indeed, the promise of a new beginning had been fulfilled. On February 9, less than a year after beginning their desperate sit in, SQP poured its first mold. Sparks flew like long overdue fireworks as the molten steel flowed. Once again the community turned out on a cold winter day, this time to celebrate as a bottle of champagne was smashed on the first ingot shipment to leave the new company's grounds.

Commitment is what transforms promises into reality.

On April 11 Sharpsville Quality Products retired the bridge financing and the new 53 percent ESOP company emerged. Six percent of stock is held by three top managers at SQP, 7 percent is held by Mike Locker, the consultant who prepared SQP's feasibility assessment and business plan, 23.6 percent is held by the main outside equity investor, and the final 10.4 percent is held by six other outside investors. The board of directors looks like the diverse group of players who contributed to making the deal happen: three USWA representatives, one salaried person, one community representative, three representatives of the outside investors and a seat for the company president, Ronald Anderson.

But what sort of new beginning is this? Active employees now own 53 percent of a company which is in a shrinking market. Can the new company survive? CEO Anderson thinks so. He points out that a company, like a successful football team, needs "motivation, knowledge and attitude." "We have a great team, nowhere do we come up short, except me, I'm only 5 foot 6," Anderson said.

On average, the seventy workers hired back to date each have fifteen to twenty years of experience. They know their jobs and their company. "Our first step is to get back into the ingot-mold market. The goal here is to out service everyone," stated Anderson. Both Swogger and Anderson agree, motivation comes in many new ways: the struggle has instilled pride in the workers; the eyes of Shenango Valley are on SQP; if they succeed, the employees will get the profits; and the workers know what the job market looks like and they don't want to lose their jobs again. Still, the proof of attitude remains to be seen, according to Anderson. "Attitude can be hot and cold. Can we work together in the long term? Every day we must work at it. We have developed a fresh way to do things, with three job classifications instead of twenty five. We are trying to instill a winning attitude." To succeed in their ambitious plans, the employee owners at SQP will need that winning attitude. While instilling a winning attitude may take time, SQP's employee owners' ambition and enthusiasm have not waned after the buyout.

It's tough swimming up stream, but the salmon have been doing it for years.

SQP is already working on diversification plans. After securing its position in the ingot-mold market, the company plans to expand into the slag-pot market. The company has already begun working on an expansion into the gray ductile iron market. In the long range, SQP may get into making nuclear waste containers. This means that Sharpsville Quality Products is already considering four product lines rather than the one on which the company had relied in the past.

The employees of SQP certainly face many challenges. Buying the company has given the employees a chance. Now comes an even bigger challenge: making it work. If the determination demonstrated in the buyout effort is indicative of the energy and commitment the work force will show in the future, then perhaps they will overcome the hurdles in front of them and SQP will succeed in meeting its main goal: Job security for the employees. It may be difficult to imagine that SQP will grow from the present 75 employees to 1000 in two years as a local psychic recently predicted, but looking at the raging river these salmon have already raced up, it just might be possible.

The Sharpsville buyout committee and others involved declare victory after the bankruptcy hearing on November 8, 1993.

Owners Speak Out

What Advice Would You Give to Someone Considering an Employee Buyout?

"The most important thing in my opinion is to stress to the employees that they are shareholders in their company. When employees are told that they are owners, I believe that the wrong seed is planted. The expectations of ownership will never be fulfilled because of that seed being planted. Every company, whether employee owned or not, still needs structure and giving people an insurmountable task is detrimental to that structure."

Tim Brown is President of ACTWU local 224-T at Textileather, 100 percent ESOP located in Toledo.

"The first and probably the most essential step is to enlist the aid of the NOEOC. The instruction, information, advice and just plain help is the best available. And it is free. Assuming the employees and owners are in agreement, select attorneys and accountants that have experience and expertise in establishing an ESOP. Go shopping for the best available loans. Contact local banks first because they are usually anxious to help local business. There are Community Development and State Agencies that have funds available, at very low interest, to save jobs and ensure the prospect of new jobs for local communities. Learn to "Manage by Involvement" from the beginning. Select a committee represented by all layers of the company regardless of status or rank. Assign them specific duties to achieve the buyout. The NOEOC will provide guidelines. Be prepared to devote loads of time and work. Good luck."

Darrel Cox is President of Jet Rubber, a 100 percent employee-owned firm based in Rootstown.

"My advice for someone attempting an employee buyout is to set up a communication network immediately to explain to all the employees involved what an ESOP involves. One of the critical areas that must be addressed before the decision is made is, "what does ownership really mean."

All the employees should understand what is expected from them, and they should be guaranteed the opportunity to become involved in the decision-making process. It should be understood by all the employees that changes do not happen overnight, and quite a culture change will occur over an extended period of time."

Dave Borell is President of USWA Local 1124 in Massillon, Ohio. He represents employees at the Hot Roll Plant of Republic Engineered Steels, which is a 100 percent employee-owned company.

ARE BUYOUTS TO AVERT SHUTDOWN WORTH THE EFFORT?

The national record on buyouts to avert shutdown is mixed. The failure of some early, highly publicized, union-led attempts (for example, Rath Packing and Hyatt Clark) and of a dozen or more management-initiated ESOPs in the trucking industry -- led many people to believe that establishing ESOPs in troubled companies merely postponed the inevitable.

Contrary to popular opinion, however, most successful employee buyouts to avert shutdown actually succeed as ESOP companies, according to estimates by Corey Rosen of the National Center for Employee Ownership. That means that most the enterprises that conventional "wisdom" would have closed are still open because of employee ownership.

The deck is stacked against employee buyout efforts when a shutdown threatens.

The record in Ohio during the last decade is even more clear. Of the eighteen Ohio buyouts to avert shutdown outside the trucking industry that the NOEOC is aware of, one firm has closed and not reopened, three companies have been sold by employees to outsiders with deeper pockets and are still in business, and fourteen -- about 5 percent of Ohio's 275 ESOP companies -- are still operating as employee-owned businesses. Failure is likely, however, along the rough road toward an employee buyout to avert shutdown. As Figure 1 indicates, only about one effort in ten led to the employees buying the plant. The vast majority of Ohio employee groups who began a buyout never completed the task. Buyouts are difficult because so many players -- often with conflicting goals -- must cooperate. Successful buyout groups need to pull legal, financial, and technical resources together quickly, line up assistance from local, state and sometimes federal politicians, negotiate with the current owner, locate debt and equity financing and persuade the employees and sometimes their union that a buyout is the right course of action. Consequently, the leaders of a buyout group must be willing to work long and hard under tremendous pressure to see the effort successfully completed. Successful buyouts take a minimum of six months to complete, and eighteen months is not unusual.

Though the overwhelming majority of employee buyout efforts fail, it should be noted that these efforts generally strengthen the employees' hand in dealing with potential outside buyers and even attract buyers who are interested in a committed workforce. (See "Success through failure: Roshel Industries.) Thus even when the employee buyout effort does not succeed, it can increase the likelihood of keeping the plant open.

Given the fact that state, local, and occasionally federal funds are used to facilitate buyouts to avert shutdowns and the tremendous investment of sweat equity involved in making these deals happen, are buyouts to avert a shutdown a worthwhile investment?

The short answer is an emphatic "yes!" To take a single case, the Textileather buyout, which occurred in 1990, retained more than 200 well paid jobs that otherwise would have been lost in Toledo. In addition to the jobs, the company paid more than $650,000 in state and local taxes last year.

AFTER THE BUYOUT

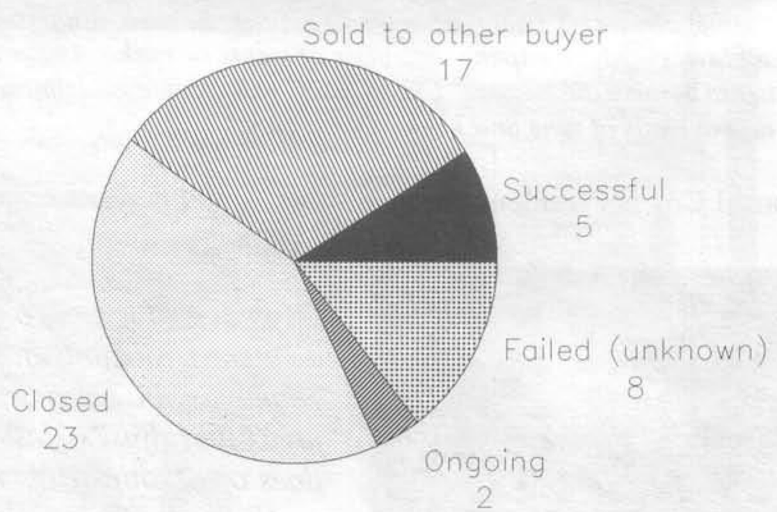
While job retention and tax generation numbers are important, they do not tell us much about how the companies function after the buyout. To find out more about ESOPs that were created to avert shutdown or job loss and how they differ from other ESOP companies, we turned to the Center's 1993 study of Ohio-based ESOPs.

Unlike the numbers above, which are based on NOEOC staff estimates of whether a buyout was initiated strictly to avoid a shutdown threat, survey data presented below are based on company self-reporting. Thus the discussion above and the survey below supplement each other, but the data are not directly comparable.

Fourteen (8 percent) of the 167 firms responding to the survey cited avoiding a shutdown or job loss as a major or minor reason for setting up their ESOPs. For 5 of these companies, it was the major reason; for 9, a contributing reason. The Ohio figure is higher than the National Center for Employee Ownership's national estimate that no more than 1 percent of ESOPs were set up to avert a shutdown, but that may reflect differences in definition and Ohio's large industrial sector.

Figure 1.

Outcome of buyout efforts to avert shutdowns in Ohio, 1987-1993



Success through failure: Roshel Industries

Roshel Industries, a tube mill in Northeast Ohio which employed 150, was put up for sale by its owner when he ran into cash-flow problems in the spring of 1988. While several firms looked at the facility, they were more interested in it for its liquidation value than keeping it operating. To try to preserve their jobs, the employees, organized by the USWA, organized a buyout effort. "The ESOP put us through the door when it was time to buy the facility," said USWA local 14765 President Colleen Felger, who spearheaded the buyout effort.

The employee buyout group hired consultants to help them put together a bid on the facility. While they could not prevent the firm's closure, they continued their effort to purchase it. In an auction-style bidding, the employee group bid against both a suspected liquidator and a buyer who became more interested in the facility due to the publicity generated by the employee buyout effort. The employees were able to outbid the liquidator, but it was questionable whether or not they would be able to raise the necessary financing.

During a break in the bidding, Felger and the interested bidder met privately. A deal was struck where the employees agreed to discontinue their bidding, if the buyer agreed to operate the facility under a union contract. The buyer agreed and the facility was reopened. "Even though we didn't buy the company, the publicity that the buyout generated enabled us to be a player. It helped us to maintain the union contract and saved a lot of people's jobs who didn't have anywhere else to go," said Felger in a recent interview.

In order to examine the differences between the ESOPs to avert shutdown and other ESOPs, we have compared the 14 "shutdown ESOPs" with the other 153 companies which responded to the study. One should be cautious in generalizing from the first group because of its small size, but the differences between what we can call "shutdown ESOPs" and ESOPs established for other reasons are of such magnitude that we can have confidence that the differences are real.

The 14 shutdown ESOPs fell into two categories: troubled plants or companies where a shutdown loomed for economic reasons and plants or companies up for sale in which other likely buyers intended to move elsewhere. In either case, employee ownership was a preferable choice for Ohio workers.

Concessions and Control

Buyouts to avert shutdown or job loss frequently require concessions but are far more likely than other ESOPs to result in majority employee ownership.

It is a widely held belief that employees have to make wage and/or benefit sacrifices when they buy a company to avoid job loss. According to the survey data, however, this is far from universally true. Only three-fifths of "shutdown ESOPs" (eight of fourteen) required any financial sacrifice by employees. Six -- 43 percent -- gave up future wages and benefits, and four converted existing pension or profit-sharing plans into the ESOP; two did both. In the other cases, the ESOPs seem to have been set up primarily to avert a sale to an outside buyer who would liquidate Ohio jobs; the job threat was not triggered by the company itself being troubled. By comparison, only 5 percent of the non-shutdown ESOPs (n=153) reported that the employees gave up future wages or benefits when the ESOP was set up. While 10 percent of the non-shutdown ESOPs (n=153) converted a pension plan into their ESOP; another 22 percent converted a profit-sharing or 401K match plan into the ESOP.

"Shutdown ESOPs" are more likely to be majority employee-owned than other ESOPs. Employee control is almost always an issue in buyouts under these circumstances. In fact, of the ESOPs set up to avert a shutdown, 57 percent were majority ESOPs, and 43 percent were minority plans. Two of the shutdown ESOPs (14 percent) owned 10 percent or less of the company's stock. In contrast, only 26 percent of non-shutdown ESOPs were majority owned and 23 percent of the non-shutdown ESOPs held less than 10 percent of the company's stock.

Despite the idea popularized by the media that buyouts to avert shutdown inevitably occur in unionized, declining industries, most shutdown ESOP firms in the Ohio survey were nonunion. Only 43 percent of buyouts to avert a closure or job loss were in unionized firms; the remainder were non-union. The non-union companies, however, were generally firms where the threat of shutdown stemmed from purchase by an undesirable buyer.

Shutdown ESOPs are more likely to be majority employee owned.

(The NOEOC's experience indicates that, by the time a shutdown notice gets posted or the company goes into bankruptcy, the employees have little chance to attempt a buyout unless they are organized. NOEOC's records indicate that 40 of the 55 buyouts to avert shutdown since 1987 were unionized. Besides, unionized buyout attempts receive press attention because labor and management joining together to save a facility is an irresistible story.)

Shutdown ESOPs are far more likely to include union members as participants than non-shutdown ESOPs. All six of the unionized shutdown ESOPs include union members in the plan, while only 14 of 37 unionized, non-shutdown ESOPs include union members. Under labor law, when another collectively bargained pension exists, the ESOP is a permissible, but not mandatory, bargaining issue (i.e., either the company or the union can elect not to include it in collective bargaining). In a unionized shutdown situation, however, it is practically impossible to close the ESOP deal without the union's support.

Table 1.
Employee Participation in Decision Making, Shutdown and Non-Shutdown ESOPs

	Shutdown	Non-Shutdown
Employees vote for the Board of Directors.*	70%	30%
Have a non-managerial Board member	50%	14%
Provide financial information directly to employees	71%	49%
Have ESOP Administration Committee	77%	72%
ESOP Participants Elect Administration Committee members	40%	0%

*closely held companies

Employee Participation in Decisions

Not only are "shutdown ESOPs" more likely to be majority employee owned, they are also more democratic. As Table 1 demonstrates, they are more likely to pass through full voting rights, more likely to provide full financial information directly to employees, and more likely to have an elected ESOP administration committee than non-shutdown ESOPs.

What is clearly happening in buyouts to avert shutdowns is that employees are creating structures that give them far more input into and control over decisions. These new structures provide some insurance against future job loss.

"Shutdown ESOPs" are more than twice as likely to provide full voting rights to ESOP participants and more than three times as likely to have non-managerial employees elected to their boards of directors than other ESOPs. Three quarters of them provide employees directly with financial information compared to about half the other ESOPs. While about three quarters of both groups have ESOP administration committees to enable employee owners to monitor their plan and the plan's trustee, the firms differ greatly in how the ESOP Administration Committee is selected. In non-shutdown ESOPs, no committee members were elected. In shutdown ESOPs, 40 percent had participants either elect some or the entire ESOP Administration Committee.

Since there is considerable evidence that employee participation improves company performance, these new structures created to increase employee control also increase the likelihood of business success.

Competitiveness of Shutdown ESOPs

While the issues of employee involvement and control are interesting, what counts in business is performance. Since these companies were slated for closing, one must assume they did not meet someone's performance standards. Given this point of departure, it is not surprising that they have performed less well than the non-shutdown ESOPs.

After the employee buyout, shutdown ESOPs continued to lag the non-shutdown firms in profitability. Among the former, 22 percent said their level of profitability was higher than their industry; while 39 percent stated it was lower. By contrast, among the non-shutdown ESOPs, after the ESOP was created 42 percent said profits were higher than their industry, and 12 percent said profits were lower. However, as Table 2 demonstrates, shutdown ESOPs were somewhat more likely to improve their profitability relative to their industry after establishing the ESOP than their unthreatened counterparts were.

Of course, when their company is otherwise going to be closed, employees are more concerned with keeping their jobs and retirement benefits than in profits or dividends. The companies in the Ohio study set up to avert a shutdown certainly have accomplished these goals: 36 percent actually increased employment relative to their industry after the ESOP was set up; the rest matched their industry. Again, this lags the performance of non-shutdown ESOPs; among those companies, 52 percent improved their status vis-a-vis their industry. Still, under the circumstances that a shutdown otherwise loomed, their employment performance is admirable.

Table 2. Change in profitability relative to industry since ESOP established

	Shutdown	Non-shutdown
Profit up relative to industry	46%	22%
Profit unchanged relative to industry	31	61
Profit down relative to industry	23	16

Buyouts: Hard Work, But Worth the Effort

The survey's data indicate that, while buyouts are difficult to accomplish, they certainly are worth the effort for the employees when they succeed. They are of value to Ohio's communities as well. Conservative estimates suggest that ESOPs have directly saved between 4,000 and 5,000 jobs in Ohio that would otherwise have been lost.

Of course, the deck is stacked against employee buyout efforts when a shutdown threatens. As Figure 1 suggests, of 55 buyouts to avert shutdown that the NOEOC worked with, only five have become ESOPs. From an employee perspective, however, success can be defined as retaining the jobs, whether or not the company becomes an ESOP, as happened at Roshel and in sixteen other cases. Or success can be defined as empowering the employees to start a new business, which at least one of the "failed" buyout groups has done.

Predicting the chance of success at the beginning of a buyout effort remains an art, not a science. Perhaps the most crucial lesson of the Sharpsville story (see front page) is that dedicated, competent leadership can make a buyout work despite overwhelming odds against it.

YSI Inc. is Named ESOP Company of the Year By ESOP Association

The ESOP Association has selected YSI Inc. of Yellow Springs, Ohio, as the 1994 ESOP of the Year.

YSI is a privately held company whose employee owners design, manufacture, distribute, and service precision probes and instruments for water quality, temperature, and chemical analysis for clinical and industrial users. Founded in 1948 in the basement of Antioch Colleges' science building, YSI is widely-known for its innovative technology and is considered a world leader in thermistors and amperometric sensors. The company also recently achieved ISO 9001 status, placing it at the cutting edge of international industrial standards.

YSI is notable for its use of teams in employee participation, and in-depth financial information is shared with employee owners in several ways. In 1994, two employee owners were elected to serve on the company's Board of Directors. In addition, voting rights on all issues that require shareholder approval are passed through to the employee owners. YSI has an elected "Owners Participation Committee" and holds at least five plant-wide meetings a year. At least once a year, YSI's CEO meets with each employee owner on an individual basis.

The YSI BioAnalytical Products Group, part of the Award winning team at YSI.

More than 275 active employee owners at YSI own 55% of the company (45% through an ESOP). ESOPs give employee owners a financial stake in the company's future success, thereby helping to increase productivity to levels that are competitive in the global marketplace, while also providing a source of future retirement income.

The company has grown dramatically since it introduced its ESOP in 1983. Sales have grown from $18 million in 1985 with 400 employee owners to $31 million ten years later with approximately 275 employee owners. The stock price has more than doubled during this period.

Financially, YSI accrues 15% of pre-tax profits which are distributed equally to all employee owners through a profit- sharing scheme. In 1993, the company paid over $1.1 million of pre-tax profit in cash to the profit-sharing plan, to the ESOP, and to the 401(k) plan. Employee owners are also given the option of receiving stock dividends in cash, or using the money to purchase more YSI stock inside their ESOP account.

Nan M. Harshaw, Vice President of Human Resources at YSI said, "winning the ESOP Company of the Year Award confirms that companies which embrace change and which place great value on the contribution of individual employee owners while fostering an environment which recognizes that contribution, set the stage for their own reward."

J. Michael Keeling, President of the ESOP Association, called YSI "a model for its community and for companies throughout America. They are an outstanding company filled with outstanding people who have demonstrated the power of employee ownership."

The ESOP Association is the Washington-based trade group of employee-owned companies and advisors, representing more than 1000 ESOP companies in 19 chapters nationwide.

EMPLOYEE-OWNER FORUM

Norm Brennan of Dimco-Gray

MANAGING AN EMPLOYEE-OWNED COMPANY

When you start talking about managing an employee-owned company after an employee buyout, the first thing you have to understand is the "culture" and the history of the company that created the culture. There are no established road maps for a company to use as it transitions from, say, a family owned company or a company that is a spin-off of a larger company, to an ESOP company. Each ESOP company is different with a unique corporate culture and must find its own way. Dimco-Gray Company was no exception.

COMPANY HISTORY

Dimco-Gray Company was originally formed in 1948 by the merger of two parent companies -- Dimco Plastics, Inc. and Gray Laboratory & Manufacturing Company. Gray Laboratory was started in 1933 by Floyd Gray. Gray had a small government contract for the production of valve bodies which he produced in his basement on a part-time basis, while at the same time maintaining his position with Frigidaire. As his business prospered, Gray left Frigidaire and relocated his business to allow for further growth and to accommodate his newly developed snapslide fastener business.

During World War II, he produced gyroscope instruments for radio controlled airplanes. At the time, a satisfactory method to time gyroscopes did not exist, so Gray designed a timing device to meet this need. At the conclusion of the war, the demand for these timers diminished, leaving Gray searching for alternative applications for his product. He exhibited his timers at a photographic show in 1946. This exposure launched the peace time commercial business for GraLab products.

Dimco Plastics, Inc. dates back even further. It was started in 1924 by Carl Gunlach as the Dayton Insulating Molding Company. The company was formed for the custom molding of many kinds of plastic parts. Two years after Gunlach and Gray merged their businesses, Gunlach died. The business continued to grow, however, under the management of Floyd Gray until his death in 1960 when his sons, Dan and Bob Gray, assumed ownership.

In May of 1966, the company and Amalgamated Local 768 of the International Union of Electrical Workers signed a collective bargaining agreement. Dimco-Gray Company had transitioned from an organization driven by the entrepreneurs who started the company to a second-generation, family-owned company with a union to represent its workers. During this transition, the relationship between labor and management became progressively more combative.

In 1986, the company was faced with the possible sale and divestiture of its product lines as Dan Gray prepared to retire. To avoid the possibility of lost jobs, the company's employees formed an ESOP using all the company's assets as collateral. Three years later, the company's President, Jim Rush, passed away. A new president was hired in 1989 whose style of management and general philosophy differed greatly from his predecessor. The transition to employee ownership and new leadership was tumultuous.

Norm Brennan is President and CEO of Dimco-Gray Company.

Profile:

Dimco-Gray Company

PRODUCTS: Knobs and handles, electro-mechanical and electronic timers, custom-molded plastic products, thermoset and thermaplastic products.

EMPLOYMENT: 136 in two plants, Centerville and Troy, Ohio. Hourly employees are organized by IUE 768.

SALES RANGE: Approximately $ 12 million.

ESOP: 100 percent employee owned. ESOP formed in 1986 to avoid a possible sale or divestiture of its product lines.

CHALLENGES FACING DIMCO-GRAY

Conversion to employee ownership is not a panacea for the problems of a mature company in a competitive mature industry. In fact, while the people and the problems remain the same, often the employees' expectations regarding financial performance, employee participation, and employee-owner rights are unrealistically raised. This was certainly the case at Dimco-Gray.

Dimco-Gray Company was challenged with a self-destructive corporate culture. This culture was characterized by internal conflict, self-interest, and power struggles. The dual roles of employee and owner often led to disputes over the responsibilities of each. The relationship between union and management was adversarial and distrust was pervasive throughout the company. The negative corporate culture caused Dimco-Gray to be internally focused rather than customer oriented and, accordingly, profits were suffering.

MANAGEMENT INITIATIVES

To overcome the challenges facing Dimco-Gray, management unleashed the creativity of Dimco-Gray's human resources through empowerment -- a key element of the corporate mission statement. To this end, the company:

Trained all employees
Implemented a labor-management cooperation program
Opened the firm's accounting records
Implemented a team approach to the business
Focused on reengineering the business
Implemented a Human Resource Team

(1) Training for all employees

Dimco-Gray embarked on a training program for all employees. The program encompassed a variety of subjects and educational formats. Corporate governance, ESOP mechanics, accounting principles, how to read financial statements, computer literacy, strategic planning, product costing, pricing, problem solving, and meeting facilitation are just a sample of the materials covered. The training formats included off-site seminars, in-house training sessions, job-related college courses, cross-training, and cooperative arrangements with other employee-owned companies. For example, twenty-one employees voluntarily attended a facilitator training seminar conducted by Wright State University in order to gain additional skills in effectively managing company meetings.

As a result, the company's meetings have become significantly more productive and encourage broader participation. Another specific example of the company's training initiative included encouraging the union committee members to attend a seminar on how to understand financial statements offered by the NOEOC. This training was put to good use during union negotiations and contributed toward better communication between labor and management.

(2) Implementing a labor-management cooperation program

Dimco-Gray's leadership implemented an intensive labor-management cooperative program with the assistance of the Center for Labor-Management Cooperation at Wright State University. A key element of this program was an additional forty hours of off-site training for every employee (including management, office, and factory employees) focusing on conflict management, problem solving, and communication. The objective of this program was to break down communication barriers, establish positive communication channels, and foster a spirit of cooperation.

(3) Sharing financial information

Dimco-Gray's management opened the accounting records to all employees, published monthly financial statements, openly discussed financial results and issues hindering profitability, and invited an outside union representative to audit the company's accounting records. The purpose of these actions was to convey a message of openness, to establish the ground work for building trust, and to assure employee awareness of the company's financial condition.

(4) Taking a team approach

The company implemented a team approach to virtually all aspects of the business including strategic planning, inventory management, monitoring and improving productivity, developing capital and operating plans, improving quality, monitoring product profitability, reducing health care costs, and improving customer service. Committees and teams were established to focus the company's energy toward better managing the company on a day-to-day basis. These cross-functional teams recommended numerous improvements which were accomplished through process analysis and effectively using input from employees throughout all segments of the company.

> *The employees of Dimco-Gray understand that constant change is a reality and are determined to manage the change -- not be managed by it.*

(5) Reengineering Dimco-Gray

We made a conscious effort to focus the organization's efforts on exploring the concepts of corporate reengineering. The company has adopted Hammer and Champy's definition of reengineering (as defined in their book, *Reengineering the Corporation: A Manifesto for Business Revolution*) as "the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance, such as cost, quality, service, and speed." Through extensive exposure, members of the organization have become aware of the management philosophy of reengineering and the benefits that can be obtained from its employment. As such, the employees have begun actively searching for opportunities to use a clean-slate approach to develop new processes rather than simply modifying the company's existing processes.

(6) Starting the Human Resource Team

Labor and management worked together to implement a Human Resource Team to address difficult employee issues including union negotiations, grievances, health care, and other employee benefits. In the past, these issues were handled solely

Dimco-Gray receives a $10,000 first prize for "excellence in employee training." Presenting the award on behalf of the Ohio Department of Development is Donald Jakeway (2nd from right), Director.

by a Human Resources Manager. The Human Resources Team is comprised of union and non-union employees selected on the basis of their leadership, communication, and interpersonal skills. One example of the Team's accomplishments is the cost-saving conversion of the company's employee health benefits to a "managed" health-care program.

Results and Management's Perspective on the Future

Where is Dimco-Gray today? Dimco-Gray Company has achieved enviable results by meeting its challenges. It has overcome a self-destructive corporate culture and has established its strategic direction. As a result of the employees' efforts, Dimco-Gray achieved solid profits for the last five years and its stock's value has steadily increased. The employees were further rewarded for their efforts by receiving a substantial profit-sharing check at the year's end as the company celebrated record profits.

The relationship between labor and management has also improved dramatically. Changes in the union leadership and the method of union negotiations reflect the proactive attitude which now permeates the company. Negotiating teams met with a "win-win" attitude, without prior posturing or demands, and examined the issues and the future viability of Dimco-Gray Company. As a result, two union contracts at each of the company's facilities have been successfully negotiated in the last three years. Furthermore, Dimco-Gray Company has received national recognition for its accomplishments. The company was one of only four in the state of Ohio, and one of two hundred nationally that was recognized as a Blue Chip designee granted by the US Chamber of Commerce, *Nation's Business Magazine*, and Connecticut Mutual Life Insurance Company. This recognition was based on having demonstrated outstanding use of resources to overcome a variety of competitive challenges and emerge as a stronger business.

As an employee-owned company, the employees are responsible for their own destiny.

What is in store for Dimco-Gray in the future? Dimco-Gray's future is in its people. As an employee-owned company, the employees are responsible for their own destiny. The employees recognized the challenges they faced and took enlightened, effective action. The employees of Dimco-Gray understand that constant change is a reality and are determined to manage the change -- not be managed by it.

Ohio Legislature Renews Employee Ownership Assistance Act

Finding qualified, independent information and assistance during an employee buyout is often difficult. Thanks to the foresight of the Ohio Department of Development and the Ohio legislature, however, Ohioans have not had that problem for the last five years.

Ohio is one of a handful of states in the country with a well developed employee-ownership program. The strategy began to develop in the mid-1980s, as the Ohio Department of Development provided key assistance to a number of successful employee buyouts of facilities threatened by shutdown or by heavy downsizing. This support was systematized by legislation authored by Representative Jack Cera (D-Bellaire) in 1988. Cera argued that employee ownership was a viable job retention and creation strategy. The *Employee Ownership Assistance Act* mandated that the Department of Development provide a variety of services to employees and managers interested in exploring employee ownership and sought to make the Department's activities less reactive and more proactive.

> *"Employee ownership is a vital part of Ohio's efforts to retain and create jobs. The Employee Ownership Assistance Act has proved a success and deserves to be continued."*
>
> State Representative Jack Cera

The 1994 sunset provision in the legislation provided the legislature an opportunity to take stock and to ask whether employee ownership has been effective. "Employee ownership is a vital part of Ohio's efforts to retain and create jobs," Jack Cera said in introducing legislation to extend the program for another five years. "The Employee Ownership Assistance Program has proved to be a success and deserves to be continued. It helps labor and management to determine, in advance, if employee ownership will help a particular company save jobs."

The House Economic Development and Small Business Committee heard Gene Ott, chairman of the Newark Air Force Base buyout committee and an engineer at the base, discuss the utility of the state program in the employees' ongoing attempt to purchase the Heath, Ohio, facility from the Air Force. "It was like preaching to the choir," commented Ott, on the enthusiastic support offered by the committee members. Newark AFB employees have pushed the buyout effort in order to insure that the facility survives privatization by the Air Force and that its jobs stay in Ohio.

In testimony prepared for the Senate Committee hearing, Pamela Holdren, of Dimco-Gray in Centerville, stressed the importance of state assistance for employees first in buying and then in making a success of Dimco-Gray. Holdren, the company's chief financial officer, expressed doubt that the employee buyout could have been financed without a crucial $600,000 state loan.

Holdren also stressed the importance of the training programs provided through the Ohio Industrial Training Program, and ownership education through the Northeast Ohio Employee Ownership Center; Dimco-Gray has also worked closely with the Wright State Labor-Management Cooperation Center (see related article, page 11).

"These programs have greatly assisted Dimco-Gray in improving its operations, empowering its workforce, and assuring the company's on-going success," said Holdren, who went on to note the awards it has recently won (see picture, page 13).

The bottom line, Holdren told the committee, was that employee ownership had benefitted the company and the employees. Since it became employee owned, Dimco-Gray had increased its profitability, and reduced its debt-to-equity from 6.2 to 1 to .75 to 1, and stabilized employment at competitive wages under contract with the International Union of Electrical Workers (IUE).

However, "had the employees not purchased the Company with state support," Holdren told the senators, "Dimco-Gray would have been sold to our competitors and moved out of the state of Ohio."

In the final days before summer adjournment, the House passed the renewal by 98-0. The Senate approved renewal 31-0.

EMPLOYMENT OPPORTUNITIES IN EMPLOYEE OWNERSHIP:

The **Northeast Ohio Employee Ownership Center** (NOEOC) expects to advertise two staff positions in the next few months.

The **NOEOC** is a non-profit program at Kent State University which promotes employee ownership in Ohio by providing information, outreach, and preliminary technical assistance to employees, managers and business owners interested in employee ownership; and through ownership training and education in existing employee-owned firms. As a university-based center, the **NOEOC** has an active research program, and it also maintains a joint program with Russian counterpart organizations to adapt the American experience with employee ownership to fit into the privatization process in Russia.

The **NOEOC** is funded primarily by grants from the Ohio Department of Development, private foundations, and contributions and contracts with employee-owned firms.

If you are interested in receiving the advertisements of these positions when they are released, please send a letter and current resume to Karen Thomas, Interim Associate Director, Northeast Ohio Employee Ownership Center, 309 Franklin Hall, Kent State University, Kent, Ohio, 44242; fax 216-672-4063.

The NOEOC/KSU is an equal opportunity employer and encourages applications from women and minorities.

Notice:

The NOEOC recently received funding for a research project, ***"Designing a model Outreach Program for Business Succession in Closely Held Companies."*** *The goal of this research is to accumulate the experience of individuals and organizations which have conducted succession planning programs in the past and find common successes and errors. The result will be a model program for outreach to small business owners, designed to encourage succession planning with an emphasis on using employee ownership as a possible tool.*

If you have conducted such programs or have information which could be helpful, *please contact Stephen Clifford or John Logue at the NOEOC.*

Creative writers:

The NOEOC is holding a:

Creative Writing Contest!

Send us your poetry, essays, and short stories.

Topic:

How has employee ownership:

changed your job,

changed your workplace,

changed your life?

The winners will be announced during Employee-Ownership Month (October), and the winning entries will be printed in the next issue of *Owners At Work*. **The winner will receive a $100 savings bond, 2nd place, a $50 savings bond.** Entries not longer than 500 words should be received by September 1, 1994.

No purchase necessary, void where prohibited by law, all winners are responsible for state and local taxes. NOEOC staff and their families may not participate.

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UPCOMING NETWORK EVENTS

July 14, Kent: **"Strategies for Handling Repurchase Liability,"** an ESOP Administration Forum for ESOP Administrators and ESOP Committee members.

August, TBA: **"On-Site Participation and Communication Forum,"** a program for managers and non-managers interested in employee participation and involvement.

Sept. 15, Kent: **"Supervisor/Team Leader Workshop,"** a program for supervisors and team leaders from ESOP firms.

Oct. 27, Atwood: **"Employee-Owner Leadership Development Retreat,"** a 2 day non-managerial training program.

Nov. 10, Kent: **Annual CEO Meeting** a program for CEO's from ESOP companies.

Dec. 8, TBA: **"Supervisor Workshop: the Changing Role of Front-Line Leaders"** a workshop for employee owner supervisors.

For more information on Network Programs call Karen Thomas at the NOEOC (216) 672-3028.

Ohio wins national ESOP recognition

Ohioans swept up some prestigious awards at the ESOP Association's national conference in May.

*Davin R. Gustafson won the award as **Outstanding State ESOP Association Chapter Officer**. Dave has served for four years as an Ohio ESOP Association officer and is currently its treasurer. Even when not volunteering for the Ohio ESOP Chapter, Dave spends his time on ESOPs; he is an Assistant Vice President with Society Business Valuation Services which provides valuations for approximately 50 ESOP companies both in and out of Ohio.*

YSI, in Yellow Springs, Ohio, was named **ESOP Company of the Year**. See our story on page 9 of this issue of *Owners at Work*.