13th Annual Conference OEOC Employee Ownership April 9th - Akron West Hilton

OWNERS AT WORK

Ohio Employee Ownership Center

Volume X No. 2 Winter 1998-99

Trouble in Paradise?

Employees Sell Republic Engineered Steels, Strike Republic Storage

After 8 years of employee ownership at Republic Engineered Steels, employees voted overwhelmingly in September to sell their majority stake in the company. At the time of the sale, Massillon-based Republic was Ohio's largest majority employee-owned company. The sale followed a period of rising tension between Republic's management and the Steelworkers union that led the union to sit in at the company headquarters and the management to call the police to arrest the owners.

Meanwhile, across the tracks from Republic Engineered Steels' Canton plant, employee-owners went on strike at 100% employee-owned Republic Storage Systems. The press has a field day.

Behind the headlines at Republic Engineered

In 1989, LTV Steel, then in bankruptcy, sought to divest the eight plants of its bar division, which produced carbon and alloy bar, tool, and remelted specialty steels. There were two serious bidders. One was a financial purchaser who planned to eliminate many of the division's 4,700 jobs. The others were the employees who wanted to keep their jobs.

The November 1989 employee purchase was not consummated without a lot of kicking and screaming. Although it had the backing of United Steelworkers International, the presidents of the four largest of the nine Steelworkers locals involved recommended a vote against the employee buyout. In the end, the rank and file union members voted by a 2 to 1 margin to buy Republic Engineered Steels, Inc. (RESI), even though the average employee gave up about $4,000.

The employees not only bought the company, they also bought its legacy of misgivings and uncertainties, the heritage of labor concessions, LTV's bankruptcy, attacks on retirees' benefits, threats of shutdown, as well as the natural concerns regarding the future of Republic Engineered Steels as an employee-owned company in a hostile economic environment.

Could employee ownership transform that legacy?

LTV's union-management relationship had been traditionally adversarial and combative. It has been colorfully described as a "form of civilized, all-out warfare." The new employee owners wanted to change that relationship. To do so they created a new labor-management structure which they dubbed the H-1 Committee (named for a section in the labor contract). Among other things, the committee was responsible for the development of a new management system. This new system included joint problem-solving meetings at all levels of the company, and the establishment of Republic's Owner Education Program which gave the new employee owners the basic information needed to understand and participate effectively in the operation of the company. The Owner Education Program was a key component of the H-1 Committee's effort to replace the adversarial environment at Republic with greater cooperation.

Sheriff deputies handcuff steelworkers sitting in at employee-owned Republic Engineered Steels. Dave McCall (right) secretary of the steelworker negotiating team.

The basic philosophy of the new education program was that peers would teach peers. The instructors were not professional trainers from the management hierarchy; rather they were average employee owners trained to teach their co-workers. They were crane operators, clerks, foremen and secretaries. They went through train-the-trainer workshops that were developed and run by the Ohio Employee Ownership Center at Kent State University. The peer instructors wound up spending about 25% of their time teaching; the other 75% of the time, they worked their regular jobs. The classes they taught ranged from understanding common stock and Republic's financial statements to an overview of the bar steel competition they were up against. The peer trainer approach, as one member of the Committee noted, gave the training "an openness, honesty and credibility that such training done by management, the union, or an outsider, could not have matched."

As useful as it may have been, the Owner Education Program, as well as other activities of the H-1 Committee, were only steps in a long process of change in the traditional relationships. In some locations, the adversarial relationships never did go away. They are still there today. Has it been the result of real and meaningful differences or were personalities the major culprit? That is a question that no doubt will be debated for years to come.

Survival, success, and strain

During its first three years -- the "survival stage" as former CEO Russ Maier called it -- Republic faced enormous challenges as a stand-alone operation, including a fiercely competitive

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market, stagnation in the auto industry and a near depression in the steel industry. Yet RESI weathered the storm.

In 1994, Republic tapped the public debt market to put in a new $165 million "cast-roll" facility at its 8th Street plant in Canton. The Cast-Roll technology links five separate steps in steel-making into a single process which converts molten steel into billets. In layman's language, what used to take days or weeks now took hours.

The introduction of the Cast-Roll facility allowed the union and the management to implement a new work system dramatically changing conventional steel industry work practices. This new work system was built around team concepts, flexibility, multi-task training and pay for skills. The new concepts were anchored in the 1993 labor agreement. The company put the Cast-Roll employees through an average of 17 weeks of training to run the new equipment, all of which, it was expected, would produce lower costs and higher quality products while creating much more satisfying working conditions for the employees. Governor George Voinovich termed the new work system at the Cast-Roll facility "the wave of the future."

This state-of-the-art technology did cut costs dramatically when it came on stream in October 1995, but price weakness in the steel market cost Republic most of the gains and kept Republic from becoming a financial success.

Many employees trace the decline in management and union cooperation to Republic's going public in 1995. The public offering of eight million shares left the employees with about 54 percent ownership of the company but raised only about 60% of what had been originally discussed, so the public issue did little more than cover the costs of buying out the employees' preferred shares. It brought in little for capital improvements.

It did, however, divide management's attention between serving two different constituencies: the minority public shareholders and the majority employee shareholders. In the view of some employees, management opted to represent the interests of minority, outside shareholders.

Selling RESI

While Republic Engineered Steels did a lot of the right things, the company posted net losses throughout the 1990s. This is never a good situation in an industry that requires major investments just to stay competitive. Yet despite this unimpressive financial performance, in July 1998, the company announced an acquisition offer that would buy out its stockholders, assume its considerable debt, lead to nearly $200 million in new investment in Stark County, Ohio, and fund a favorable labor agreement with the United Steelworkers.

In a deal valued at about $420 million ($145 million in cash plus the assumption of $275 million in debt), the Blackstone Group and Veritas Capital Partners joined forces to buy the struggling company. Blackstone and Veritas already owned several small bar steel operations, including Bar Technologies, the remnant of Bethlehem Steel's wire and rod operation. The combined company, named Republic Technologies International, is expected to have annual sales of about $1.2 billion, employ nearly 5,000 employees (including 3,000 in Stark County), and have the capacity to produce about 20 percent of the bar steel consumed in the U.S. The Blackstone/Veritas buyout was prompted by RESI's early 1998 decision to build a new hot rolling mill. That led to fighting between the Union and Republic management over the location of the proposed new plant. The Union wanted it in Stark County, concerned that building it elsewhere could lead to layoffs at the existing facilities. Management was unwilling to commit to building it there. The International Union, regarding RESI management as unresponsive to

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

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the needs of its workers, then began discussions with representatives of Blackstone to put together a deal.

The Blackstone Group, founded in 1985, is headed by Peter G. Peterson, who served as Secretary of Commerce during the Nixon Administration. Veritas is a private investment fund founded by Robert McKeon in 1992. The two groups have been partners in BarTech since April 1996. David Stockman, former Reagan Administration official, who is Blackstone's Senior Managing Director, has said "our plan is to combine the best operations of both companies, invest substantial capital in new mills and upgraded facilities and implement a constructive new relationship with the Steelworkers union." Some may find irony in this--Steelworkers and Republicans aren't usually even mentioned in the same breath.

Among the many approvals needed to clear the way for the acquisition was a new labor agreement. On August 31, the USWA International announced that the membership had overwhelmingly ratified a new labor agreement that covered some 3,200 USWA members at RESI and about 800 members at the three companies already owned by Blackstone: Bar Technologies, in Johnstown, PA and Lackawanna, NY; Bliss & Laughlin in Harvey, IL; and Canadian Drawn Steel in Hamilton, Ontario. The new five-year contract provided wage increases and improvements in employment security, insurance and pension programs, including a 40-hour per week earnings guarantee.

The contract also called for investments of about $400 million in plants operated by Republic and BarTech over the next five years. Besides routine upgrades, Stark County will gain about $120 million for a new hot-rolled bar mill, $40 million for a new cold-finished mill, and $35 million for melt shop improvements.

With the stock offer, pension improvements and other incentives, the union's ranks in the combined company will probably be thinned significantly over the next five years. Most of the downsizing is expected to come from the plants in Stark County. David R. McCall, head of the negotiating team for the USWA, has said the deal contains the incentives necessary for the combined company to get the downsizing it says it needs in a humane fashion. Under the agreement, for example, pensions were almost doubled from $1,000 to $1,925 per month for employees with 35 years of service.

In exchange for the union contract improvements and incentives, the new company will gain the efficiencies of a smaller work force operating with modern work practices that allow each worker to perform multiple jobs. McCall said, "the investments, as well as new work rules, will make the new company a world-class operation." The new agreement offers a flexibility in workforce utilization that it did not have before, eliminates a lot of what were considered restrictive work practices and modifies the application of seniority to allow the company to place the best qualified person on a job.

Lest anyone wonder, the union contract was not the only deal negotiated in connection with the new venture. Republic's Board of Director's had previously approved "golden parachutes" that provided at least $3.8 million for the company's top six executives if they lost their jobs.

Could RESI have made it as an employee-owned firm?

There can be little doubt that RESI would never have survived into the 1990s had the company not been bought by the employees. But the euphoria didn't last. The company lost money in most years of its existence as an ESOP. Did it have to be bought out to be competitive?

Given the lack of true labor-management cooperation, the answer is probably "yes." Although RESI had a lot of good things going for it, it never seemed to take full advantage of its

Whatever the shortcomings of RESI as an ESOP, overall the experiment must be considered a success. After all, saving the company and the jobs was what the employees set out to do in the first place.

employee-ownership structure. It did not fully grasp the reality that an ESOP needs trust and cooperation, with everyone going in the same direction , if it is to become truly successful.

Language in the collective bargaining agreement provided all the tools for a model labor-management cooperation situation, but both labor and management seem to agree that it never really worked like it was supposed to. As in most similar situations, there is probably enough "blame" to go around.

The USWA-Blackstone/Veritas agreement addresses two key problems that held RESI back: excessive headcount resulting in inefficiencies in operations and restrictive work rules. RESI had sought, ultimately unsuccessfully, to deal with both.

Could these items have been addressed successfully by RESI as an ESOP company? Probably, had the parties had more trust in one another. However, RESI, as indicated by financial losses year after year, couldn't afford the "pension buyouts" and the "40 hour guarantee" that Blackstone agreed to as part of the deal with the Steelworkers. It would have been necessary to accomplish them in some other fashion. However, the level of distrust that led management to go to court to vacate an arbitrator's decision, and led some in the union leadership to resist all efforts to move the company forward, continued to color the collective bargaining relationship and prevented the implementation of model labor-management cooperation contract language.

Whatever the shortcomings of RESI as an ESOP, overall the experiment must be considered a success.

Employees did well financially. The average of $4,000 per hourly employee by LTV was rolled over into a preferred shares ESOP plan which was cashed out for about $20,000 in 1995. The average employee, who participated in the 1989 buyout, netted an additional $21,000 from the sale of the ESOP common stock to the Blackstone Group. That totals $41,000 -- or roughly $5,000 per year per employee for 8 years on a $4,000 original investment.

More importantly, employee ownership saved the company and the jobs. Even though it was generally unprofitable, RESI modernized its facilities and made itself attractive enough to bring Blackstone and Veritas into the mix and, with that, brought additional investment and the continued anchoring of jobs in Ohio. And, after all, saving the company and the jobs was what the employees set out to do in the first place.

Owners Strike Republic Storage

While the employee owners of Republic Engineered Steels were in the process of selling their company, the 370 members of Steelworkers Local 2345 at Republic Storage Systems staged a 16-day strike against theirs. This was the first strike at Republic Storage since it became an ESOP in 1986. In fact, it was the first strike since the late 1950s.

Republic Storage Systems, a leader in the design and manufacture of high quality storage products including school lockers, file cabinets and shelving, was bought by the employees in 1986 from LTV steel. With the Union taking the lead, the employees banded together to buy 100% of the company for about $25 million. To help raise the money, employees, both union and salaried, agreed to take a 15 percent cut in wages and benefits.

On the surface, Republic Storage Systems appears to be a great example of a participatory ESOP. They had excellent labor-management cooperation language in their contract. The Union had two seats on the company's Board of Directors, elected by the Union members--two other seats belonged to non-union employees and the remaining three seats were held by outside directors elected by the inside directors. They were owners of the company.

The managers are supposed to run the company for the shareholders, but the shareholders are the same folks who they are managing. This makes for a complex relationship.

Why go on strike against yourselves?

Part of the reason was economics. Going into the 1998 negotiations, the hourly employees were earning $2.60/hour less than the industry average and 40 cents/hour less than they earned in 1986 when the company became an ESOP. The pension plan also lagged the industry. Furthermore, the company was now making money, something it hadn't done in the first 9-10 years of its existence as an ESOP. Union workers wanted their share.

But the reason may go deeper than simple economics. There seems to have been a lack of trust in top management and a sense of unfairness that was generated when in 1995, after the negotiations with the Union, a group of top managers received big increases. While there is nothing inherently wrong in giving managers raises, there apparently was no explanation nor justification given to the employee owners, only indignation that the word leaked out.

The relationship of trust took another tumble in late 1997 when the employee owners were asked to consider a bid for their company without any explanation as to who the anonymous bidder was or what their intentions were. The workers felt they were being asked to buy a "pig in a poke." The employee owners voted it down, expressing concern that the mystery bidder might close the plant and move the work elsewhere.

When the smoke cleared after the 16 day strike, the parties had reached an agreement that provided $2 an hour over the three year contract, a one percent increase in the pension multiplier, and improvements in sickness and accident insurance and vision care benefits.

Today both union and management downplay the strike. They agree that the best thing is to make Republic Storage a better company as it moves into the 21st century. Robert Easton, Human Resources Director for Republic Storage, says that despite the strike, the parties can have a good relationship and they now need to set goals and move forward working together to increase the business for the good of all. Pat Bentley, President of USWA Local 2345 concludes that "we all need to put this behind us, to get rid of the baggage we've accumulated over the years and go forward collectively to develop a more participatory structure that would involve employees more than they have been."

Labor, Management and ESOPs

Employee ownership is not necessarily a bed of roses for labor. At both Republic Engineered Steels and Republic Storage Systems, employees owned a majority of the company. In both cases, employees generally felt that management was not responsive. In both cases, employees could not make their voices heard effectively through corporate governance channels, despite board representation, or even through the additional contractual participation mechanisms. Their experience raises at least three major issues.

First, what ought the relationship between management and labor in employee-owned companies be?

Employee-owned companies aren't run by the employees. They hire managers. The managers are supposed to run the company for the shareholders, but the shareholders are the same folks who they are managing. This makes for a complex relationship.

That's particularly true when there are outside shareholders as well as employee owners. At Republic Engineered, management itself was divided over the degree to which it needed to respond to outside shareholders versus employee shareholders. The management split led ultimately to the resignation in January 1997 of several managers who argued for the latter. Over the next months, the remaining managers found themselves increasingly at loggerheads with the union.

Second, what do shareholders want managers to achieve in ESOP companies? The simple answer "maximize share value," which we assume drives managers in publicly traded companies for their absentee owners, generally doesn't hold for employee owners. Employee owners want to balance raising share values (a long term benefit) with reinvestment for job security (another long term benefit) and with current income and benefits. Thus while it is possible to persuade employees that new technology has to be introduced and jobs cut to remain competitive, employees certainly expect the new jobs coming on stream to be located within commuting distance of the jobs being lost.

Third, how to recruit managers? The employees and Union had helped hire the CEO at Republic Storage. Like other ESOP companies, they used the same pool to recruit managers as conventionally owned firms. Had Republic been outside owned, shareholders would have praised the CEO. Instead, they went on strike against him. We need an ESOP management-recruitment firm that understands the needs of employee-owned companies. □

Louis Kelso Made Simple

by David A. Spitzley

Louis O. Kelso is justly recognized as the visionary who developed the first ESOPs, and who worked with Senator Russell Long to get them written into Federal law in 1974. However, while Kelso's contributions to public policy are acknowledged, his writings on economic justice are still unfamiliar to most people.

What was Kelso attempting to accomplish through the creation of ESOPs?

Kelso's point of departure is the issue of economic justice:

> In an industrial economy such as ours, is it possible to order things so that, (1) all families are in a position to earn what amounts to a decent standard of living by, (2) an organization of the economy which preserves and respects the rights of private property in capital instruments as well as in labor power, and which (3) distributes the wealth produced among those who contribute to its production in accordance with the principal of distributive justice stated above? (*Capitalist Manifesto* [1958], p. 64)

Louis Kelso

Kelso answers these three questions with a resounding "Yes." The core of his solution is what he calls the three Principles of Economic Justice. Kelso restates them in different themes throughout this writings, but in summary they are:

1. The Principle of Distribution: Each participant in the production of wealth should receive a share proportionate to the market value(s) of the labor and capital they contribute to the enterprise.

2. The Principle of Participation: Each household must have the opportunity to earn a decent standard of living through effective participation in the production of wealth, whether by property in labor, capital, or both.

3. The Principle of Limitation: No one may exclude others from effective participation in the production of wealth through excessive concentration of ownership, whether in capital, labor, or both.

Kelso identifies several injustices inherent in historical and modern economic systems which are due to the violation of one or more of the above Principles:

- Pre-industrial slave societies, in treating humans as property, violate the Principle of Participation, making the slaves entirely dependent upon their owners who are, nevertheless, within their rights under the Principle of Distribution to claim the products of their "capital."
- The laissez-faire capitalism of the nineteenth century failed to follow the Principle of Limitation, which in turn led to mass violation of the Principle of Participation causing widespread poverty throughout Europe and beyond.
- Marx, in formulating Communism, or State Capitalism in Kelso's terms, to solve the problems of the laissez-faire economy, wound up violating the Principle of Distribution by placing every citizen's daily subsistence within the hands of the State, following not a Principle of Justice, but a Principle of Charity: "from each according to his ability, to each according to his need."
- Finally, the modern American economy, or "mixed capitalism" in Kelso's term, represents an alternative attempt to solve the problems of laissez-faire capitalism. Unfortunately, the Keynesian policies of the last 60 years fail to address the underlying problem of concentrated capital ownership, and instead use redistributional policies to raise standards of living for those dependent upon labor for subsistence, at the expense of capital owners. This leads to a different (yet related) violation of the Principle of Distribution from that created via Communism.

Working from these critiques, Kelso identifies the distinguishing characteristics of the modern American economy as:

> **(a)** vestigial or nominal private ownership of capital instruments; **(b)** no limitation on, and hence still undue concentration of, such ownership...; **(c)** a form of distribution... according to which owners of capital receive some share of what their property produces, but much less than they are entitled to..., and according to which those who participate in production through mechanical labor alone receive a much larger share than such participation earns by its contribution; **(d)** a generally high standard of living for the laboring masses in the population. (*Capitalist Manifesto*, p. 106)

With this diagnosis in place, Kelso focuses on how to address the concentration of ownership in a way which will reduce and eventually eliminate the necessity of (a) and (c) as a means of addressing poverty and other symptoms of economic injustice. How does the ESOP fit into all of this?

As envisioned by Kelso, the ESOP involves three different targets he identified as obstacles to achieving democratized capital ownership: the corporation, the government and the credit system.

- The modern corporation, by retaining some or all of its earnings for future expansion, both attenuates the rights of capital owners to receive all wealth produced by their property, and also aggravates the concentration of wealth by placing the value of newly created capital directly into the hands of existing shareholders.
- Government policy, in the absence of ESOPs, tends both to encourage earnings retention by corporations (as a way of sheltering from personal income taxes what would otherwise become shareholder income), and discourages significant transfers of capital holdings to capitalless workers by levying taxes on such transfers.
- The credit system makes capital acquisition nearly impossible by requiring collateral self-insurance, in most cases, which restricts borrowing for acquisition of capital to the few who already own significant capital estates.

While there are other aspects of these institutions which Kelso targets for reform, and other institutions entirely which come in for criticism, ESOP legislation addresses all of the complaints listed above to varying extents: pre-tax payment by the corporation into the trust encourages fuller payout of earnings by the corporation; delaying personal income taxes on the shares, until such time as they are sold, eliminates "drag" on the rate of capital acquisition; tax advantages on payments to ESOP trusts over internally financed expansion encourage corporations to create new owners rather than enrich existing ones; and the use of shares purchased by the trust as collateral on the loan serves to reduce, if not eliminate, the "insurance" barrier to capital credit for otherwise capitalless workers.

In combination, the elimination of these barriers through ESOPs has helped millions of workers become capital owners and this well-established success is inspiring many people to take a new look at Kelso's other proposals, such as General Stock Ownership Plans, as a means of spreading capital ownership to even more people. Whatever one may think about Kelso's political perspective, his proposals for wholesale economic reform represent one of the few cases in the history of ideas where utopian ideals where accompanied by specific suggestions for how society could reach the eventual goal. This fact alone demands that Kelso be given a closer look. □

David A. Spitzley graduated from Wayne State University in 1996, receiving an MPA with a concentration in Policy Analysis. He is currently working as a database developer for the State of Michigan, but hopes to find a position doing research on democratized capitalism and related topics in the near future. He may be contacted by email at optimist@io.com.

Succession Planning Program

Spring 1999 Schedule of Seminars

The Ohio Employee Ownership Center (OEOC) has been teaming up with the Greater Cleveland Growth Association's Council of Smaller Enterprises (COSE) to provide a comprehensive series of succession planning seminars to area business owners. The Succession Planning Program helps business owners plan for succession by exploring a wide range of options.

Program participants receive *"An Owners Guide to Succession Planning,"* a Service Provider Directory of local practitioners, worksheets, selected readings and presenter packets. Participants also have a chance to ask technical questions and interact with other business owners.

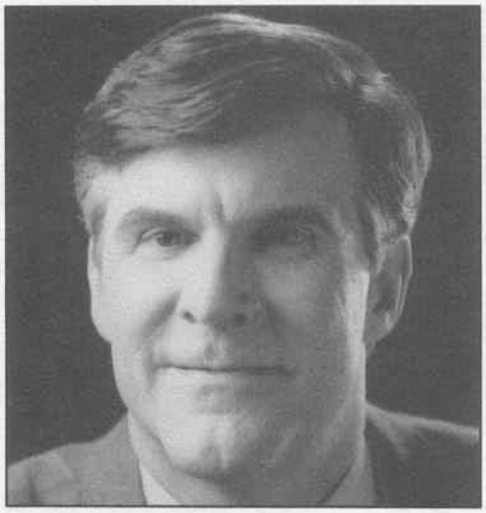
This program is funded by the **Cleveland Foundation** as an effort to retain jobs that would otherwise be lost from failure to plan for succession. Each seminar, *with the exception of April 9th*, runs from 8:00 a.m. - 10:00 a.m at the Greater Cleveland Growth Association in downtown Cleveland at Tower City. **Registration is limited to the first sixteen business owners per seminar who sign up.** Directions will be faxed prior to each seminar.

Date	Topic	Key Speaker(s)
February 18	**The Basics of Managing Succession**	Joel Strom, *Strom Associates*
March 18	**Tax Issues in Succession Planning**	Jim Aussem, *Brouse McDowell*
April 9	**Selling to Your Employees: ESOPs**	*13th Annual ESOP Conference in Akron*
May 13	**Financing Succession Plans**	Neil Waxman, *Capital Advisors*
June 2	**Family Issues In Succession Planning**	Roger Warrum, *National Center for Family Business*

** The April 9th Seminar will take place at the 13th Annual Employee Ownership Conference at the Hilton in Fairlawn, Ohio (just west of Akron).*

To register or for more information, please contact:
Alex Teodosio at 330-672-3028 or ateodosi@kent.edu

Broadening Capital Ownership



Keynote Speaker
Jeff Gates
Author of the Best Seller:
The Ownership Solution

18 planned conference workshop topics include . . .

- Saving good paying jobs through employee buyouts
- Succession planning of ownership and management
- Converting to a Subchapter S ESOP
- Dealing with repurchase liability
- Valuing your business
- Employee involvement
- Ownership training
- ABC's of ESOPs
- Roundtables
- and more . . .

Luncheon Speaker
Jim Petro
Auditor
State of Ohio

13th Annual
Conference
OEOC
Employee Ownership
April 9th - Akron West Hilton

when: Friday, April 9, 1999

where: Akron / Fairlawn Hilton
Fairlawn, Ohio *(off I-77)*

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Ohio Employee Ownership Conference

$30.00 Network Members (before 3/12/99)
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OEOC

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Network News

Ohio's Employee-Owned Network's Mission

Ohio's Employee-Owned Network provides a forum for those working at all levels in employee-owned companies to learn from each other how to make employee ownership work more effectively. The Network organizes multi-company shared learning opportunities, roundtables, and training sessions which address the unique challenges of ESOPs.

New Ohio ESOPs Are Already Mature

One of the most striking findings in our last Ohio ESOP survey was that new ESOP companies looked much like mature ESOP companies in terms of employee participation, training, and sharing financial information.

For an example, look at **Kraft Fluid Systems** in Strongsville, one of Ohio's newest ESOPs. Kraft, a distributor of hydraulic and power transmission equipment, was founded as a two person operation by Bob and Marie Kraft in 1972. They hired their first employee in 1975. The Krafts were always employee oriented; the company value statement pledged that "Our employees are our greatest resource and we value their suggestions for improvement. We respect individual and family needs. KFS encourages personal and professional growth and appreciates that cooperation and teamwork multiply individual effort."

With this commitment as part of their retirement planning and succession strategy, the Krafts began selling the company to the employees. Today Kraft is 45% owned by its 40 employees.

Kraft joined the Ohio Network before it had put its ESOP in place. It kicked off its ESOP by sending its entire ESOP committee to the ESOP Association's national employee owner leadership development retreat, which the OEOC staffs, and sending the committee through the Network's financial training.

"Before we went on this retreat," reported ESOP committee member Yolanda Tenny to her fellow employees, "I thought that an ESOP program meant business as usual. It was great that we had a new retirement plan in addition to the retirement plan we already utilized. Great! It doesn't even cost me anything to participate. What could be better? Pssst. Guess what? It gets better.

"We soon learned that now whatever decisions we make are not going to affect "their" profits, but instead "our" profits. Do you realize that even the smallest decisions you make could affect the bottom line? Yes, that's right folks, "our" profits.

"Our focus, as shared owners, should be to make this company run as smooth and as efficient as possible. Some things are going to change from the way we are used to doing them. It is our duty to share our ideas. If you think you know a better way of doing something, you need to share that idea."

Kraft celebrated the establishment of its ESOP with a lunchtime fiesta.

This is the kind of employee participation philosophy that used to take ESOP companies years to develop. Today, more and more new Ohio ESOP companies start with this view.

Kraft Fluid Systems' ESOP Committee at the Network financial training program. From left to right Harriet Mack, Yolanda Tenny, Paul Skrant and Joe Hintz.

Other New Ohio Network ESOP Companies

Falcon Foundry, in Lowellville, set up a 30% ESOP on September 30. Falcon, which casts copper cooling components for the steel industry, has always been an unusual company since it was established in 1952. As part of its corporate bylaws, it has been committed to profit sharing (a third of the profits go to shareholders, a third to employees, and a third are retained in the business). Further it has encouraged employees to purchase stock directly, and about half the workforce were already owners before the ESOP.

This pre-ESOP commitment to employee ownership was part of the reason Falcon had 176 shareholders -- surely exceptional in a company with 120 employees. The tender offer, and all the other work on this complicated ESOP transaction, was done by Don Israel of Benefit Concepts Systems. Falcon's president, Gary Slaven, noted that "We've done a lot of work in putting the ESOP in place, but we also still have a lot of work to do. I think it's going to be great, especially in the long run and very beneficial to all the employees."

Falcon Foundry is organized by Steelworkers Local #5025. USWA Staff Representative Gary Steinbeck, who works with the Local Union, pointed out that "Most of the time, you think of ESOPs being designed to save companies in trouble, but at Falcon Foundry, that is not the case. It is an asset to be able to put in this kind of program, especially in a situation where the company is healthy to start with."

Other new ESOPs in Ohio are **ACRT**, **Brainard Rivet**, **Community Electric**, **Cornwell Quality Tools**, **Decorative Surfaces**, and **Gutknecht Construction**. Meet them at Network programs in 1999! □

1999 Ohio Network Schedule

January 21, Kent
Leading & Managing Owners
Designed for those with increasing responsibilities to encourage employee involvement and lead change efforts. Communication, decision-making, and conflict management strategies are explored.

February 11, Kent
Everything You Need to Know About Working with an ESOP Valuator
How to prepare for your valuation and work with your valuator. Topics include valuation methods, implications for sub-S ESOPs, marketability discounts, and benchmarking indicators.

March 4 & 5, Kent
Teaching Financials to Employee Owners: A Financial Train-the-Trainer Workshop
Session on how to teach others a step-by-step introductory course on understanding financial information.

March 10, Columbus
CEO Roundtable
Discussion of current issues and timely topics.

April 8, Fairlawn
Growing Pains in Maturing ESOPs
Phases of ESOP growth in ESOP firms, special challenges of mature ESOPs, and building upon the achievements of your ESOP.

April 8, Fairlawn
New Employee Orientation Aproaches
How to educate new employees about your ESOP and share ownership.

April 28 & 29, Dayton
May 5 & 6, Kent
Taking Ownership of Safety
Training workshop by safety managers from Ohio ESOPs on creative strategies for approaching safety systematically.

TBA
Advanced ESOP Training
Fiduciary roles and major responsibilities of ESOP trustees, ESOP Administration Committees, and nonmanagerial directors.

June 17, Kent
Understanding the Numbers
Participants learn the basics of financial statement terms found on the balance sheet, profit & loss, and cash flow statements, through exploring a simplified ESOP company's operations.

June 18, Kent
Putting the Numbers to Work
Participants learn several basic tools of financial analysis; concepts include the operating cycle, working capital, cash flow and ratio analysis.

July 15, Dayton
Managing Repurchase Obligations
Various funding strategies and payout options used by ESOP firms to repurchase ESOP stock from employee owners, the pros and cons, and the impact of these approaches will be explored.

August 19-20, Deer Creek Resort (South of Columbus)
4th annual CEO Retreat
Interactive sessions and informal presentations on pre-selected topics of common concern; ample time for informal discussion of current issues.

September 16, Dayton
ESOP Communication Committee Training
A training session for members of ESOP committees and teams responsible for communication and education to promote the ESOP and an ownership culture at their firms.

October 26, Dayton
October 28, Kent
CEO Rountables & HR Reps Roundtables
Half-day discussions with open agenda on timely topics selected by participants. *Held in conjunction with the Annual Meeting of Ohio's Employee-Owned Network*

TBA
Employee Owner Retreat
For non-managerial employees. Participants learn the basic of ESOPs, meeting skills, understanding financials, and group problem solving.

A matter of trust

Per Åhlström

Swedish journalist Per Åhlström spent three weeks in Ohio in Fall, 1997 to collect material for a book on employee ownership published in Sweden in 1998. We asked him to reflect on what he had learned for ***Owners at Work.***

Running a successful company is very much a matter of trust, whether or not it is employee owned. But having visited about ten very different ESOP companies it is obvious to me that trust between employee owners and management is a -- maybe even **the** -- key to success for ESOPs.

In the traditional company, distrust is normal. The management spends a lot of money and effort on different control systems -- foremen, time clocks, time studies, etc. The workforce spends a lot of effort trying to evade these control systems. They make jigs the foreman doesn't know about, to take longer breaks or to make more money than the time-study engineer figured was possible. They punch time cards for each other and find any number of ways to try to take a bigger piece of the cake than management and stockholders want them to have. The result is of course that stockholders, managers and employees have a fight over a smaller cake than they would have if there were trust between them.

A properly run ESOP is a powerful tool for building trust in a company. The employees know that what they don't get in wages and bonuses will reach them in increased stock value -- provided the management doesn't rob the company.

In a few companies I visited, employees believed that management had tried to do just that. I met one CEO who complained that his board, which had an employee majority, put most of its efforts into controlling the management instead of concentrating on company strategy. The reason? The previous CEO had created a bonus system giving himself and his small management team 90 per cent of the bonus and 10 per cent to be divided among the employee owners. The board seemed to have learned from experience.

Per Åhlström is Editor-in-chief of ***Nya Norrland*** *and* ***Dagbladet,*** *two daily newspapers in northern Sweden.*

It takes years to build trust and seconds to tear it down.

Employee participation

I met some worker-owners who claimed that their company was run just like when it was family owned. I do not think they told me the truth. There might not have been much change in the formal organization, but talking to them I found a sense of responsibility for the bottom line and for the company that I never have found in any conventional workplace during my many years as reporter and editor for a Swedish trade union magazine. It was obvious that their company had a less formal structure than conventional companies, with less attention to job descriptions and formal chains of command, which made everyone happier and the company more profitable. The cost of conventional company control is higher than most people even can dream.

I also met some worker owners who worked in a very democratic spirit, but with no formal guarantees for their democratic organization. If there was a change in attitude among the majority owners, this workplace democracy could be swept away in seconds. But I think that the informal guarantees for continued democracy in these companies are fairly strong. People who are used to having a say, who have been empowered, do not easily adapt to dictatorship. Any company trying to go from democratic decision making to a command-and-control system would quickly find itself in deep economic problems.

Union roles

For a Swedish trade unionist, it is depressing to see the bad name some American unions have made for themselves and to see how little influence they have.

In some companies I visited, it was obvious that the narrow-minded view of union officials was hurting the best interests of the people the union is there to defend.

For fifty years, Swedish unions have promoted productivity. Our assumption has been that only successful companies can provide secure employment and good wages and benefits. The interests of the majority of workers have taken precedence over the interests of individuals. This kind of policy can of course also be carried too far, but when this union policy is complemented by good unemployment benefits and extensive systems of retraining, and other activities to help the unemployed move into new and better paying jobs, it becomes acceptable to all.

In unionized ESOP companies I saw how some unions had adapted to the change and helped build trust between worker owners and managers, how they made the job descriptions more flexible, and how they let people grow and work out of their assigned box. But I also saw unions that stuck by their old ways, that did not want to change their own structure, but defended the old company structure, the old union structure, the old job descriptions. I could not help thinking that in some unions the jobs for the union officials seem more important than the well-being of their members.

A good union, which puts its members first and defends the members' interests by helping them adjust to modern times, is a great asset. It is good for the members who are more secure and make more money working for a company that can change with the times. And it is good for the company because it can stay competitive and more profitable in a rapidly changing world. If a good union is combined with an ESOP, the workers have a great partner defending their individual interests, a partner with expertise to help them stay level with the management, help them make the company they partly or wholly own more profitable, and help them keep the balance between long-term company growth and job security, and a fair share of the short-term profits.

A bad union, on the other hand, which doesn't organize itself to be a good sounding board to management, can quickly destroy a company, and that way betray its members. Especially in bigger ESOP companies, with many different plants, unions that do not organize a bargaining unit on the corporate level easily fall prey to managements who divide and conquer -- or they can bring down the whole company by taking focus away from business, forcing management to concentrate on internal fights instead of the ongoing war in the marketplace.

It is an obvious conclusion that an ESOP company must have a democratic management and a workforce willing to take on ownership responsibilities.

An ESOP company cannot be successfully run in old style corporate ways. And a union in an ESOP company cannot behave as if the owners still are sweat-shop-runners or absent, profit-hungry Wall Street capitalists.

Are ESOPs too conservative?

Successful ESOP companies obviously feel comfortable with the ESOP. Sometimes too comfortable, I would say. When people say they are so successful that they don't need input from the outside, that nobody knows their business better than they do themselves, I see warning lights flashing. Complacency is the beginning of failure.

In today's marketplace, you have to keep on the move to stay in the running. A company that is just chugging along will soon find itself in trouble. A company board with only inside directors is in obvious danger of sticking with products, production and marketing methods which "have always worked." Employees of one company I visited even believed that a CEO had nothing to offer that the employees themselves couldn't accomplish. I think that is a very dangerous way of reasoning.

There is a strong tendency for ESOP companies, especially majority ESOPs, to try to stop the clock, to stick with traditional products and methods, to say that "we know what we have and not what we will get," to resist change rather than lead change. Employee-owned companies generally do not seem to be growing very much, and some are more concerned with keeping existing jobs than creating new ones.

That must change for ESOPs to be successful in the long run. If ESOPs are only used to save companies which are in danger of going out of business, they might be dangerous to the whole community, as they would preserve obsolete economic structures, much like quotas and tariffs preserved the technological museums many people called the Ohio steel industry.

When an obsolete structure like that crumbles, which it sooner or later always does, it is much worse than continuous change. There is no time to adapt, as Americans in the Rust Belt so cruelly have experienced.

One reason for this conservatism in ESOPs is that many employee-owned companies not only suffer from lack of outside input, but also from lack of capital. Some are just poorly financed and some are hampered by their repurchase obligations. There is an obvious need for some kind of friendly financing vehicle, like Canadian-style labor-sponsored investment funds.

Some sort of holding company, to take stakes in ESOP companies, could also be worth looking into.

In Sweden we have a co-op owned by individual grocery store owners. This co-op finances new stores by setting them up as co-op subsidiaries and then it slips out of ownership via a profit-sharing scheme where the store manager buys the co-op out with part of the profit from the store. This is a model which could be used to ease the burden on new ESOPs.

Pooled resources would also ease the burden of repurchase obligation, especially for small companies with a lop-sided age structure. It might also help to bring the repurchase obligation out in the open, which is a prerequisite for a correct evaluation of the share value in ESOP companies.

Lessons for Sweden

In Sweden, with its egalitarian principles, it is hard to imagine a full scale implementation of the American ESOP model. It would be considered unthinkable that people have all or most of their pension money tied to the company they work for. It would be unacceptable that some employees retire with hundreds of thousands of dollars while others might get nothing or just a few thousands.

But I do think that a combination of employee ownership, private ownership and employee-owned investment funds --

Per Åhlström (fourth from right) with Sharon Township Trustee Emil Bolas (second from right) along with PT Tech employee-owners.

used in different combinations in different companies and situations -- not only would be a good idea, but a necessity for Sweden.

We need new tools to anchor ownership of Swedish industry in Sweden, to build more small and medium-sized companies, to help them grow, and to stay competitive in the global marketplace.

Individual entrepreneurs still play a major role in economic development in the US, but they have been disappearing in Sweden. We need new industrial owners willing to risk their money long term on new and uncertain ventures. Swedish employees, individually and collectively, have to build a structure for their savings which provides more than liquidity, security and diversification. An appropriate amount of ordinary people's money will have to fill the gap in the market which the disappearing individual capitalists have left. Local employee funds will have to take the risks of developing new technology and new companies, or the local economy will stagnate.

So ESOPs and individual stock investments have to be complemented with some form of collective funds which are long-term investors, which take an active part in building new business that are committed to building a local economy which can compete in the world market. The Canadian labor-sponsored investment funds provide a model, but I think it would be wise to limit the size of these funds, and to limit the portion of the savings that individuals put into the funds. Otherwise, they can lose their focus.

Globalization does require more rapid change. But, if we develop tools like ESOPs and local economic development funds, it can be a change for the better, from old industries, detrimental to the health of the workers and the environment, and from low-tech and low-wage industries, to modern high-tech, high-paying and high-security jobs, compatible with the world wide ambition to build a sustainable economy.

Change in itself is neither good nor bad. It is up to us to make change a positive thing and to make people feel secure with changing times. ◻

"What do these foreign visitors do when they go home?"

Ohio employee owners occasionally ask us. The answer is often "a great deal."

Swedish journalist Per Åhlström returned after his initial fall 1997 visit with a Swedish trade union delegation in spring 1998. His report on his American and Canadian experience appeared fall 1998 as a book (*I egna händer: Om löntagarägande i USA och Canada* [In Our Own Hands: On Worker Ownership in the USA and Canada]).

The fact that Åhlström's book is only available in Swedish will limit its readership in Ohio, but it has already had a major impact in Sweden. Some 20 local unions in the northern provinces of Sweden have initiated a regional development fund Framtid i Norr AB (Future in the North, Inc.), like the Canadian labor-sponsored funds. The new fund will have a board that jointly represents labor and northern Sweden's business community and will anchor capital in this outlying region which is currently subject to capital flight. The broader issue of employee ownership and regional investment funds will be on the agenda for discussion at the Swedish national trade union congress in 2000.

Perhaps the most regular foreign guest in Ohio ESOP companies has been Danish professor Erik Maaløe who has visited many times. The results of his extensive interviewing at Bliss-Salem, Dimco-Gray, Fastener, Fluid Regulators, Reuther Mold, Weirton Steel, and Will-Burt is now available in English as *The Employee Owner: Organizational and Individual Change within Manufacturing Companies as Participation and Sharing Grow and Expand* (1998; 477 pages). It describes how tough it is to put the adversarial "us-them" culture behind us, and examines the culture of ownership that is gradually being created in great detail. It can be ordered for $60.50 from Academic Press, Box 54, DK-1002 Copenhagen K, Denmark; e-mail: akademisk@akademisk.dk. ◻

From Our World

Major Study Results Presented

Peter Kardas spoke to the OEOC's Faculty Associate Program quarterly dinner on December 2nd on the recent State of Washington study of the impact of ESOPs on wealth and income. The study found that companies not only provided a richer retirement for their employee owners than their conventionally owned competitors, but on the average they also paid 8% better wages and higher bonuses. Furthermore, ESOP companies were more likely to provide health insurance.

Peter Kardas, right, and Jay Simecek, Joseph Industries.

The next issue of *Owners at Work* will feature a summary of this important study.

OEOC Featured

The OEOC was featured in the special joint 1998 Labor Day issue *Dollars and Sense* and *GEO* on employee ownership.

The OEOC article reviews the history of the Center since its foundation in 1987. It summarizes the current work of the OEOC, including technical assistance the Center provides, Ohio's Employee Owned Network, and the impact the OEOC has had in increasing the rate of ESOP formation in Ohio.

This 60 page special issue also contains a number of other good articles on employee ownership and labor. It is available from *Dollars and Sense*, One Summer St., Somerville, MA 02143 for $4.50 prepaid.

National Employee Ownership Training Institute™

Twenty five years ago, mechanisms to help employees acquire ownership of their companies were scarce. Then the Employee Income Security and Retirement Act [ERISA] gave life to Employee Stock Ownership Plans [ESOPs]. Fifteen years ago, institutions supporting employees in their efforts to use ESOPs to buy their companies were scarce. Then state programs emerged in Massachusetts, Michigan, New York, Ohio, Oregon, and Washington to provide employees with timely information and access to experienced professionals. Ten years ago, opportunities for employee owners to share experiences with their peers at other ESOP companies were scarce. Then Ohio's Employee Owned Network was set-up, soon to be followed by the establishment of dozens of state chapters of the ESOP Association.

Five years ago, the ESOP Association asked the Ohio Employee Ownership Center of Kent State University to run its successful Employee Owner Leadership Development Retreat for a national audience. Since that time, the OEOC has initiated several national training opportunities, including the Network's annual CEO Retreat and, jointly with the Worker Ownership Institute, a Collective Bargaining Workshop attended jointly by union leaders *and* managers from employee-owned union organized companies.

Employee ownership in the US will be strengthened as more people acquire the means to educate the broad population, provide technical assistance to employee buyout groups, facilitate joint programs among companies, assist companies in the development of an ownership culture, and better understand the roles of managers and union leaders of employee owners. To meet these needs, Kent State University is establishing the ***National Employee Ownership Training Institute™***. The National Employee Ownership Training Institute will serve high school teachers, university professors, economic development professionals, ESOP service providers, managers, union leaders, and, of course, employee owners.

An important task of the National Employee Ownership Training Institute will be to recruit a national pool of instructors who are on the cutting edge of employee ownership research, training, technical assistance and hands-on company experience.

Look for the National Employee Ownership Training Institute to debut at Kent State in Summer 1999. □

Friend of the Center

The staff of the Ohio Employee Ownership Center (OEOC) and I wish you and your family a promising new year. As you may know, the OEOC has completed thirteen years of service to people like yourself who are interested in employee ownership.

As a recipient of our newsletter, *Owners At Work*, you are aware of the Center's commitment to retaining jobs, anchoring capital in our communities, and educating employees. Whether we are working with a retiring owner, an employee buyout group or an existing employee-owned company, the OEOC is truly dedicated.

This year we helped employees save their jobs at places like Brainard Rivet in Youngstown, Ohio. Another 7 companies we've worked with implemented ESOPs during 1998.

In 1998, we ran 14 different training programs for employee-owned companies and had 520 employee owners participate. We also coordinated the ESOP Association's retreat for employee owners. Our annual conference attracted 325 participants.

Every day our staff helps to build a more just — and more productive — economy through employee ownership. Although our efforts are supported by the State of Ohio and a few private foundations as serving an important economic development role, in recent years we've been asked to do "more with less." Consequently we are turning to grass-root support from the folks who know us.

If you have not done so already, we would like you to consider becoming a *"Friend of the Center"* by making a **tax-deductible donation** to help the OEOC continue providing quality services.

Thank you very much for your support and I hope to see you at the 13th annual employee ownership conference on April 9th in Akron, Ohio. Please contact me at 330-672-3028 if you have any questions.

Kindest regards,

John Logue
Director

Checks should be made payable to:
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KOKKINIS & ASSOCIATES

Kokkinis & Associates is a financial advisory firm based in New York City, focused primarily on providing services to small and medium-sized manufacturing firms. Services include: assessing corporate viability and debt capacity; financial restructuring; establishing Employee Stock Ownership Plans; succession planning for family-owned businesses; business plan development; business valuation; and obtaining financing. Kokkinis & Associates is one of the leading providers of feasibility studies for employee-buyouts. The firm has worked with several of the major organizations dedicated to industrial retention, including the Ohio Employee Ownership Center, Steel Valley Authority located in Homestead Pennsylvania, and the Ownership Transition Services Program of the New York State Department of Economic Development. For more information, please contact **Harry Kokkinis** at 212-626-6824.

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OWNERS AT WORK

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UPCOMING 1999 NETWORK EVENTS

January 21 **Kent, OH**	***Leading & Managing Owners*** Communication & decision-making strategies
February 11 **Kent, OH**	***Everything You Need to Know About Working with an ESOP Valuator***
March 4 & 5 **Kent, OH**	***Teaching Financials to Employee Owners: A Financial Train-the-Trainer Workshop***
March 10 **Columbus, OH**	***CEO Roundtable*** Discussion of current issues and timely topics
April 8 **Akron, OH**	***Growing Pains in Maturing ESOPs*** Phases of ESOP growth in ESOP firms
April 8 **Akron, OH**	***New Employee Orientation Aproaches*** How to educate new employees about your ESOP
April 9, 1999 Akron, OH	**13th Annual Employee Ownership Conference (see p. 7)**
April 28 & 29 **Dayton, OH**	***Taking Ownership of Safety***
May 5 & 6 **Kent, OH**	***Taking Ownership of Safety***
June 17 **Kent, OH**	***Understanding the Numbers***
June 18 **Kent, OH**	***Putting the Numbers to Work***
July 15 **Dayton, OH**	***Managing Repurchase Obligations*** Funding strategies and payout options
August 19-20 **Deep Creek Resort**	***4th annual CEO Retreat***
September 16 **Dayton, OH**	***ESOP Communication Committee Training***
October 26 **Dayton, OH**	**CEO Roundtables and HR Reps Roundtables**

13th Annual
Conference
OEOC
Employee Ownership
April 9th - Akron West Hilton

For more information about these events or Ohio's Employee-Owned Network, contact Karen Thomas at 330-672-3028.

OTHER EVENTS

March 10 Columbus, OH	**Ohio ESOP Association's Spring Conference** Ohio Chapter of the ESOP Association *contact Karrie Imbrogno at 440-989-1552*
March 18 & 19 La Jolla, CA	**FED Annual Conference** ***"Cultivating Commitment: Share the Work, Share the Wealth"*** Foundation for Enterprise Development *contact Marjorie Reynolds at 619-459-4662*
April 21-23 San Francisco	**NCEO's 18th Annual Conference** National Center for Employee Ownership *contact Deborah Krant at 510-272-9461 or www.nceo.com*
May 12-14 Washington D.C.	**The ESOP Association's Annual Conference** The ESOP Association *contact Rosemary Clements at 202-293-2971*

Preliminary Feasibility Grants

The Ohio Employee Ownership Center (OEOC) administers the Ohio Bureau of Employment Services' (OBES) preliminary feasibility grant program. This program is designed to provide financial assistance for groups who are interested in contracting a study to explore employee ownership as a means to avert a facility shut down.

For more information, please contact Alex Teodosio at 330-672-3028 or ateodosi@kent.edu.

visit our website at www.kent.edu/oeoc