OWNERS AT WORK

THE OHIO EMPLOYEE OWNERSHIP CENTER

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Shutdowns, Buyouts, and Jobs

It's time to recognize employee and community rights

This is a tale of Ohio employees' struggle to keep their jobs when shutdowns threaten. It is a story of two different worlds:

- **One is the world of the publicly traded, Fortune 500 company that decides to shut a facility.**
- **The other is the world of the local, family-owned company that faces having to close a facility.**

This article looks at four recent or ongoing cases of employee buyout efforts to avert shutdowns in Ohio. Two are plants that belong to Fortune 500 companies: the Amana kitchen range plant in Delaware, Ohio, which was shut by Raytheon and the Brainard Rivet plant in Girard, Ohio, which was shut by Textron. Both Raytheon and Textron are profitable and major defense contractors that receive billions of dollars in contracts from American taxpayers every year. Both refused to consider employee efforts to buy their plants as on-going businesses, even though they were exiting the business partly or wholly. Only political pressure forced them to discuss sale of the shuttered plants to the employee buyout groups.

The other two companies were or are locally owned: Yorde Machine in Nelsonville (formally Anglo Compression) and the Am Air flight school in Youngstown. Despite being financially strapped, these companies made every effort to keep the business going while the employees put the deal together.

It is a story of fundamentally different concepts of responsibility to employees and to the community.

Don Mann of the Delaware Appliance Buyout Committee addresses the 1997 Ohio Employee Ownership Conference. Other members of the buyout committee, standing from left to right, are Ed Congrove, Harold Horne, Kimm Tallman, Debbie Alshire and Bill Henderson. Karen Conrad, Ohio Department of Development, and Rev. Art Fuller are seated.

Delaware Appliance

The case of the unwilling seller

Last May there were signs that the Amana kitchen range plant in Delaware, Ohio, was going to close. In spite of major capital investments made in the plant within the last three years, the work force, which once numbered close to 1,000, had dropped to 670, then to 250, then to 180. Inventory was down. Don Mann, a trustee of Teamsters Local 284, which represented the workers at the plant, called the Ohio Employee Ownership Center to see if his members should consider trying to buy the plant.

Employee ownership was of interest to the union leadership at the plant, but they weren't yet sure whether their instincts about the danger of plant closure were right. But as people were laid off in small groups throughout the summer, they became convinced the plant would be closed. The last straw was when rumors that management was putting their homes on the market circulated through the work force. The union took matters into its own hands. A statement of concern about plant closure was drawn up by the union, was signed by each member in the plant and submitted to the Rapid Response unit of the Ohio Bureau of Employment Services. That forced the hand of the parent corporate hierarchy, which confirmed within days that they indeed planned on closing the facility. The final day of production would be October 25.

A buyout meeting for all employees of the plant was held at 9:00 a.m. on August 23 in the parking lot of the Delaware Township Meeting Hall. Under a beating August sun, surrounded by fields of corn and soybeans, over two hundred employees and family members stood and listened to explanations about employee ownership by Don Mann, Teamsters Local 284 President Harold Powell, staff of the OEOC, and the Teamsters International Union ESOP expert Greg LeRoy. Representative Joan Lawrence, whose assistance would be critical in the weeks and months that followed, spoke to the crowd and pledged her support. The employees decided to take the plunge. One hundred and ninety-four employees voted to form a buyout association. They named it the "Delaware Appliance Buyout Association," and elected a committee composed of the union leadership. Don Mann was elected chair of the buyout committee; Kim Talman was appointed secretary; and Debbie Alshire agreed to serve as treasurer.

In the fast-moving weeks that followed, the Buyout Association applied for and received a $25,000 grant from the Ohio Bureau of Employment Services to study the feasibility of employee ownership. The city and county matched the state funds, and the buyout committee itself quickly raised $15,000 from members, contributions and fund raisers. American Capital Strategies (ACS) was hired to conduct the feasibility study and to move directly into raising capital for the project if it were found to be feasible.

The feasibility work quickly revealed opportunities and challenges. The opportunities included a stable market for the product (non-self cleaning ranges, the low end of the range industry) with little current foreign competition; a dedicated and highly skilled work force; equipment that could be quickly transformed back to cell production so as to maximize efficiency short runs of the various plant product lines; and a few key, talented managers willing to stay on. The biggest challenges included a highly competitive market with dangerously thin margins and a reluctant seller.

Although the plant was owned by Amana, the parent company of Amana was Raytheon, a defense contractor. Raytheon, convinced by a McKinsey Company study that the plant could not be made profitable, did not want to talk to employees about a buyout, citing concern about employees' investment. However, the ACS feasibility study indicated that at an annual production level well within capacity, with concessions (sweat equity) by the work force, and with a firm market for those units, the plant could survive and prosper in the long run. The key element to the deal: a distributor entered into enthusiastic discussions with the buyout group about taking all of the product (with ten day payment terms) and putting equity in the transaction. All players were eager. But the Raytheon negotiators, far from the enthusiasm of Delaware, were not convinced the deal was solid.

Federal and state legislators supported the Delaware Appliance Buyout Association with heroic efforts matched only by the back-breaking work of the buyout committee and its advisors. Senators John Glenn and Mike DeWine sent letters and made calls. Representative John Kasich worked hand in glove with the group, even making a conference call to Raytheon officials from his home, where he and the buyout committee sat together and tried to convince Raytheon's corporate officials the entrepreneurial spirit of Delaware, Ohio, was a spirit to be taken seriously.

By the end of December, Raytheon finally agreed to work with the buyout group, granting them a period of exclusivity for 30 days during which they could conduct their due diligence and obtain financing. Thirty days rolled to 60 as negotiations continued. The financing was to come from a consortium of three local banks (in the form of loans guaranteed by the Federal Home Administration), a significant commitment by state and local government, and equity from ACS and the distributor. A labor contract was hammered out. Final negotiations about the environmental impact statement were being worked out - but when the bell rang on 90 days, Raytheon pulled the plug.

The buyout group, ACS, and other technical advisors scrambled to hold the deal together. Liquidators were identified to bid on the assets of the plant and then lease or sell them to the employee group. A local equity investor and possible CEO was enticed to seriously consider the transaction. To date, nothing has come to fruition. It is widely felt in Ohio that the seller's lack of belief in the transaction, and their failure to treat the buyout group as a serious contender, ultimately defeated the buyout effort.

But the story is not yet finished. Interested corporate players are considering the plant. However, the buyout committee has shut the doors to their office and moved on to other jobs. The Central Ohio economy, with an unemployment rate of 2.9%, offers lots of employment opportunities. The bitter truth that this masks, however, is that this regional economy is built on low wage jobs. Columbus, Ohio, with a poverty rate of 18%, is third highest among comparable cities in the nation in terms of poverty, yet has one of the lowest unemployment rates.

So Don Mann, with many years seniority at the Amana facility, has moved on to work a weekend shift on the weekends at a local trucking firm. Ed Congrove, another buyout committee member, runs his own yard service and hopes he can cover the bills of his wife's serious illness. Employee ownership, a tool that could have saved this 20 year old facility and the livelihoods of its employees, simply did not have one critical element for success: a willing seller.

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, and assists international efforts to privatize businesses through employee ownership.

The OEOC is funded by grants from the Ohio Department of Development's Office of Labor/Management Cooperation and the Cleveland, Gund, & Kazanjian Foundations and contributions from Kent State University and the companies that comprise Ohio's Employee-Owned Network. **Address: 309 Franklin Hall, Kent State University, Kent, Ohio 44242. Telephone (330) 672-3028 Fax (330) 672-4063 email:oeoc@kent.edu**

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Yorde Machine

The case of the willing seller

When Charlie Myers, President of United Autoworkers (UAW) Local Union 1713 at Anglo Compression's manufacturing plant in Nelsonville, Ohio heard that the owner was retiring and that his son was coming in to take the plant over, he was not sure what to think. However, two years later, he knew his mind. His union was not willing to make the kind of concessions the new owner demanded without an equity stake. That's what he asked for - and he and his 15 colleagues ended up owning the company.

Yorde Machine's new owners celebrate the company's grand opening.

In July 1996, Ohio Employee Ownership Center (OEOC) staff met with Charlie Myers and the union leadership of the plant. Employees considered and voted to explore a buyout later that evening. With a $2,500 grant from the Ohio Bureau of Employment Services, the buyout committee hired Tim Jochim, a Columbus ESOP lawyer, to study the feasibility of an employee buyout.

The feasibility study showed far more opportunities than barriers. Local banks were very interested in participating. The market for machined products was good and the seller was willing to continue on as a major customer. Most of the work force would stay. The biggest challenge seemed to be getting the accounting straightened out and hiring a plant manager for start-up.

"It was incredibly time consuming," said Roger Davis, buyout committee chair. "I talked to so many people and received so much information. I kept track of every telephone call in a book, and I had notebook after notebook of all of the materials we had to read and consider. We did everything by committee and we made all of our decisions together. It took a long time - but it was worth it in the end. Every one knew what was going on, and we'd made the decisions together. We are stronger for that."

Within six months, the buyout was within striking distance of closing - and closing finally occurred on February 28, 1997 eight months after the formation of the buyout association. The new company, renamed Yorde Machine, Inc., honoring the former owner, opened for business on March 3. It opened with a big contract from Rick Yorde, the former owner's son. At the buyout committee's presentation on a panel at the OEOC's annual conference in April, Roger Davis said to Rick Yorde: "It makes all the difference in the world to have a willing seller, and a good company to work with as a customer in the future. We look forward to our new business relationship!"

What motivates someone like Yorde to consider shutting a plant — and then turn around and cooperate with the employees to make a buyout possible? We interviewed him to find out. Here's the story.

In 1993, Richard Yorde left a Fortune 500 employer in Chicago to take over his father's troubled business. The situation presented several challenges. The family was financially at risk, because Anglo Compression's debt was backed with personal guarantees. Employees at both the manufacturing plant in Nelsonville and design division in Danville risked becoming unemployed if the bank pulled the plug on the loan. The design division could not provide enough work for the manufacturing division to operate at full capacity -- leaving a significant amount of "non-performing" assets. Either these assets needed to generate cash flow for the debt service, or they needed to be sold to reduce the debt.

In Yorde's opinion, the manufacturing costs were too high to attract outside customers. At the same time, it appeared difficult for the employees to see why they should reduce costs for someone else's benefit. Employee ownership provided an alternative which allowed Yorde to get the cash he needed to satisfy the bank *and* allowed the Nelsonville manufacturing employees the chance to do the things they needed to become competitive in the market. But the story does not end here.

Yorde doesn't intend to dedicate the rest of his life to managing Anglo Compression design division. Here too an ESOP may make sense. Selling to employees gives him a way to move his capital into a business he really does want to run.

> ***"I can't see operating a business in any other state. They'll have to drag me out of Knox County."***

Ownership and management transition, however, are two separate issues. ACI was successful for many years under the paternalistic leadership of Yorde's father. Without this centralized control, Rick felt that the design employees needed to learn to work together as a successful team. Since April, all 16 ACI employees have been attending weekly workshops to improve their meeting skills, their communication skills and their ability to solve problems as a group. While some were uncertain of the benefit of moving to a team process at first, all of the employees have taken the training very seriously. Rick's wife Debbie observed, "There has been a noticeable change here in the last several weeks. This week people were interviewing each other about the root causes of the problems their teams are working on."

When Yorde finally succeeds at working himself out of a job at ACI, will ESOPs be a thing of the past for him? Not likely. Rick has discovered that he likes being an entrepreneur with the opportunity to invest in and grow a business for four or five years, and then leave that company in the capable hands of its employees while he moves on to the next adventure. ESOPs provide a great mechanism for this adventurous capitalist to continually roll over his equity into new opportunities, while leaving successful employee owners behind to keep doing what they do best, operate *their* companies.

Furthermore, after four years of doing business in Ohio, Rick plans to stay around. He finds Ohio to be a very supportive environment for business development — especially *employee-owned.* After hearing a speech by Donald Jakeway, Director of Ohio's Department of Development, Rick says, "The interest that the State of Ohio has shown in supporting my business is quite unlike any other state where I have worked. Frankly, I can't see operating a business in any other state. They'll have to drag me out of Knox County."

Shutting Brainard Rivet while Am Air keeps flying?

"It's déjà vu all over again," complained one OEOC staffer when we got the call on Brainard Rivet's impending shutdown in Girard, Ohio, in March. "It's another out-of-state defense company that's just too big to deal with an employee buyout."

Brainard Rivet is part of the Camcar fastener division of Textron. Textron is a Fortune 500 company based in Providence, Rhode Island. It's a conglomerate with an aerospace division (including Bell Helicopter and Cessna), an automotive division, a systems division which specializes in defense work, a finance division (AVCO), and a diverse industrial products division which includes Camcar. Textron does about $9.5 billion in sales annually, including more than $1 billion in defense contracts.

Brainard Rivet is one of those small manufacturing plants with a skilled, high wage, high seniority workforce that are a key part of the economic foundation of our region. Founded in 1917 to produce rivets for barrel straps, Brainard changed its product with the times, and specializes today in customized, solid-body rivets. It moved to its current location in Girard in 1950. Average hourly pay was $15 per hour; average seniority was 17.5 years.

Brainard Rivet was a good business for Textron. The plant has been consistently profitable. Brainard's profit on sales exceeds the Camcar average, and average return on assets is believed to beat Textron's best year corporate wide. Preliminary analysis suggests that Brainard's 45 hourly and 20 salaried workers generated earnings of at least $2.1 million for Textron's shareholders in 1996, or about $32,000 per employee.

Why shut a plant like this?

Behind the pompous verbiage of Textron's annual report that "Textron is committed to being a responsible corporate citizen, supporting programs that seek to maximize human potential by building work skills, expanding the capacity of people to learn, building strong communities, and involving our people" (Textron's *1995 Annual Report,* p. 20), the simple truth is that shutting Brainard is part of a "low road" corporate strategy. Brainard is the only Camcar plant in the United States which is unionized (employees are represented by Steelworkers local 6109). Camcar was proposing to move some of the production to a non-union facility in Elk Creek, Virginia.

Despite the prompt organization of a buyout committee, a unanimous union vote to pursue the buyout, and much support for the buyout from salaried employees, Camcar turned the employees down flat. Brainard was not for sale.

No one in the Youngstown community thought the shutdown was defensible. Several area union locals, including the UAW local at Lordstown, rallied at the Brainard plant to block moving equipment out of the facility. City officials and Governor Voinovich's economic development representative, Julie Michael, weighed in with assistance for the buyout group. Congressman Jim Traficant and State Senator Bob Hagan played the same role for Brainard as Congressman John Kasich and State Representative Joan Lawrence had done at Amana in generating the political pressure to get the company to come to the table. Senators Glenn and DeWine did their part in these situations as well.

Brainard's 45 hourly and 20 salaried workers generated earnings of at least $2.1 million for Textron's shareholders in 1996, or about $32,000 per employee

When it comes to saving jobs in Ohio communities, Democrats and Republicans are all on the same side.

Unfortunately, Textron was on the opposite side. It shut the plant down anyway in early June and moved out a considerable amount of equipment. At the same time it abandoned several major customers and referred many of it's smaller customers to another rivet produces and more than 50 of Brainard's customers to other fastener producers that were Brainard's competitors, principally Securit Metal Products in Michigan. These customers could have served as a base for an employee-owned company. Only after it effectively destroyed Brainard's business, and under heavy political pressure from elected officials has Textron has grudgingly agreed to consider selling the shut plant (believed to have substantial environmental liabilities) and remaining equipment to the employees so they can restart the business.

Meanwhile, a few miles away from Brainard Rivet at the

Youngstown-Warren regional airport, an entirely different story was playing out at the Am Air Flight School. Ruth Miele and her husband George Schuster had started Am Air 26 years ago with a Cessna 152 and a lot of enthusiasm. They built the business into a fleet of six planes and a flight training program that employed 12-14 flight instructors, and half a dozen ground personnel in the office and maintenance.

"When George passed away," the Am Air employee buyout group wrote in their application for prefeasibility funds to the Ohio Bureau of Employment Services, "Ruth lost her business partner as well as her husband and the person who helped make the business fun. Her dedication to aviation and the many pilots who graduated from the school she and George built together never faltered. Over the 5 years since George passed away, Ruth has kept the school alive by investing her personal money. She is ready to retire, move to a warmer climate, and would like to see the school prosper."

Unable to sell the school which lost money after George's death, Ruth faced having to liquidate the business to get its value. A more attractive alternative was to sell to the employees and to the pilots. It was a win for her in that the business she and her husband had built would survive, and she could get at least as much out of the business as through liquidation. It was an obvious win for the employees and for the customers -- the pilots. Of course the common denominator for Ruth, the flight instructors (nearly all of whom are part time), and the customers is that they all love to fly.

Will Am Air take off under employee ownership? As we go to press, Ruth and the employee/pilot group are negotiating a deal that will transfer ownership of Am Air's planes and assets to a firm owned by the employees and customers jointly. There are no guarantees of success in the buyout business, but there is a guarantee that seller and buyer will do their best to save a business that otherwise would shut.

Suppose Rick Yorde or Ruth Miele owned Amana and Brainard...

There is a difference between family-owned businesses and big corporations.

If Rick Yorde had owned Amana or Ruth Miele had owned Brainard, both plants would be open today.

Now obviously they don't. But is it asking too much of the Raytheons and Textrons of this world for them to give their employees a chance to buy plants as ongoing businesses that the parent company is otherwise liquidating?

Is it a law of nature that Fortune 500 companies stay in the job liquidation business even when the economy finally booms?

This is not the "invisible hand" of free competition.

Instead it is the highly visible hand of conscious economic choice by managers of very large corporations who have no allegiance to their employees nor to their communities.

But they expect the rest of the community to pick up the costs of their decisions through unemployment compensation and we have to use public sector lending to put the pieces back together again.

Congressman Traficant's bill would require any company closing a plant because it is terminating the business to offer to sell the business to employees at fair market value.

It may be unfashionable to talk about corporate responsibility to employees and communities in these days of the global economy, but what's wrong with asking large corporations to act as decently as family-owned companies do? If they did, the costs to everyone — the employees, the suppliers and customers, the community, and the state of Ohio — would be much less.

The bottom line is that if Raytheon or Textron had offered the plants to employees as ongoing businesses when the employee buyouts started, both plants would be open today. Instead, they shut them down, lost the customers and the business, and only then agreed -- by this time under severe political pressure from angry office holders -- to consider selling the shut facilities to the employees.

What can we do?

Actually, we *have* made some progress in the last decade.

The WARN act, which went into effect in 1989, provides 60 day notice for shutdowns and mass layoffs in firms which employ more than 100 workers. While 60 days is not long enough to do a buyout, especially when you face an unwilling seller, it's better than no notice at all. You can put together a buyout effort in 60 days.

In Ohio, there's plenty of public sector help for buyouts. The Ohio Employee Ownership Center is only a phone call away. OBES's Rapid Response Unit lives up to its name in turning around prefeasibility funding application within a couple of working days. And public sector loans, loan guarantees, and/or interest rate buydowns have been key to the success of more than 20 employee buyouts that averted shutdowns in the state.

But none of this will bring a recalcitrant seller to the table.

On June 17, Congressman Traficant introduced legislation to do just that. Traficant's bill would amend the WARN Act to require any company closing a plant because it is terminating the business to offer to sell the business to employees at fair market value.

Traficant's move was a direct result of the Brainard Rivet shutdown. "There does not appear to be a justifiable economic rationale behind Textron's decision [to shut Brainard]," Traficant wrote to Textron CEO James F. Hardymon. "These abandoned customers could have been the base for an employee-owned business. Why would Textron oppose an ESOP if it is referring a significant number of Brainard customers to other non-Textron companies?"

An ounce of prevention is worth a pound of cure

Still, trying a buyout after a shutdown has been announced is like barring the barn door after the horses have gotten out.

The best time to bar the door is *before* the horses leave.

If you are concerned about your plant's or company's future, here are some effective steps to put employee ownership on the agenda in a timely fashion:

- Bargain "right of first refusal" in your contract to give employees the right to buy if the plant comes up for sale;
- Let the current owners know that the employees are potentially interested in buying from owners who want to exit from the business;
- Send employee representatives to local ESOP meetings or the annual Ohio conference (the next one: April 3, 1998) so you'll be armed with the information you need;
- Propose starting a small ESOP to build employee equity in the company; and
- Encourage owners nearing retirement to do business succession planning sooner rather than later.

All of these beat waiting for a WARN notice.

OEOC Succession Planning Program to Continue

During 1996 and 1997, the OEOC has implemented a business succession planning outreach program in the Cleveland area with the support of the Cleveland and Gund Foundations. In partnership with the Greater Cleveland Growth Association, the Council of Smaller Enterprises (COSE), and the Cleveland Advanced Manufacturing Program (CAMP), the OEOC ran 14 introductory and specialized seminars. The upcoming fall program will include both basic succession planning seminars and special topic sessions on legal and tax issues for owners and managers of closely held companies who are currently grappling with succession planning.

We were pleased to learn that the Cleveland and Gund Foundations have renewed their support through 1999. The upcoming fall program will include both basic succession planning seminars and special topic sessions on legal and tax issues, financial tools for succession planning, ESOPs and business succession, business valuation issues, handling management succession, and family succession questions.

For more information on these programs, contact Alex Teodosio at 330-672-3028 or (fax) 330-672-4063.

Managing owners to bring Plabell out of bankruptcy

Larry Friedeman

Larry Friedeman was a key player on the employee team which led the charge to purchase the assets of a company out of bankruptcy (for more about the buyout, see OWNERS AT WORK, Volume V, No. 2, Winter 1993). As Plabell's first CEO from 1993 until early 1997, Friedeman learned a lot about managing owners in a company that would have shut if the employees had not bought it. Here are some of his reflections:

Plabell Rubber Products Corporation, with more than 50 employee owners, is a manufacturer of molded and extruded synthetic rubber component products, rubber-to-metal bonded products, and rubber covered rolls. The company participates in a mature industry characterized by a highly competitive global marketplace. Day-to-day problems should be sufficient to satisfy even the most masochistic business' thirst for challenge. Yet, Plabell not only survives, but thrives, notwithstanding the additional challenges presented by employee ownership. One of these is balancing the design of democratic ownership with the need for management authority.

A Rocky Beginning

The company is now over four years into its grand social experiment. The path has not been easy. Plabell employees found themselves working for a company in bankruptcy several years ago. After scoping the horizon, the only viable alternative to promote the likelihood of future employment was to pursue an acquisition of assets in bankruptcy court. With the assistance of Teamsters Local 20 and the Rapid Response Unit of the Ohio Bureau of Employment Services, funding was provided to secure the services of extraordinarily capable accounting and legal assistance. Feasibility plans were prepared, a corporation was formed, negotiations with trade creditors, taxing authorities, lenders, and public entities were undertaken. Nearly eighteen months later, the interests of these parties coalesced. The Bankruptcy Court approved the acquisition of assets from the then Debtor-In-Possession. Thus, Plabell employees became the proud owners of a 100% leveraged, 100% employee-owned business emerging from bankruptcy.

Shortly after the acquisition was completed, essential pieces of equipment failed, the boiler room began to sink, a rear portion of the building subsided, a neighboring fire destroyed the roof, and a nearby explosion literally rocked the facilities. Through all the tribulations, pride, perseverance -- and most importantly -- the people prevailed.

Designed for Democracy

Plabell is an unusually egalitarian employee-owned corporation. Each individual who was actively employed on the date of acquisition was issued an equal share in the company -- there was no weighting by compensation or seniority. New hires are conditionally vested if certain requirements are satisfied within their first year of employment. After three years, they become completely vested in their stock allocations. In its brief lifetime, the employees have seen the value of company stock grow from one-hundredth of a dollar to over one-hundred dollars per share.

Each year employees are placed in nomination for board candidacy. Individuals can self-nominate or be nominated by fellow employees. Following a run-off election, shareholders annually elect the company's board of directors. Each individual casts five votes for five different people. Cumulative voting is not permitted. The elections are truly democratic in design and practice.

Balancing Democratic Ownership with Management Authority

As president, I happened to sit atop this fascinating organization for four years before embarking on a new career path in the deregulated natural gas industry with Columbia Energy Services. I must admit, as CEO of Plabell there were times I felt like the Saturday morning cartoon character perched on a bomb desperately trying to blow out the fuse. Each day posed interesting and occasionally compelling problems. I must also admit that, despite the loss of sleep and hair, my tenure as president was an invaluable learning experience.

I believe it is absolutely essential to understand not only *how* an ESOP functions, but *why* it functions as it does. I have learned that an ESOP is simply a modality of business ownership. The business itself is distinguishable. The operation must be perceived as a business and must function as one. An often used phrase in the ESOP bible, is "employee empowerment." In my opinion, use of this term does nothing other than create an unrealistic expectation on the part of employee owners. In actuality, employee owners are not necessarily empowered to do anything.

I suggest a more useful phrase is "employee enfranchisement." Employee-owners are enfranchised to exercise a degree of self-determination through shareholder voting rights. As shareholders, employee owners cast votes pertaining to general issues of governance, not management. Managerial personnel do what the name implies -- they manage. While the ownership structure of an ESOP may be democratic in design, the business should not and cannot operate as a democracy.

The political philosopher Machiavelli distinguished between the exercise of power and authority. An example of power: I have a gun, you don't -- you do what I say. An example of authority: I have a gun, you don't, you've given me a badge, you do what I say. The difference, of course, is that authority is the exercise of power which has been legitimized. In granting authority, an individual must relinquish a degree of self-determination, or power. If employees expect "employee empowerment" with an ESOP, then it is understandable that these same employees would be reticent in granting authority. Why would they want to give up something they just got?

Employee expectations play a pivotal role in the ultimate success or failure of an ESOP. If expectations are unrealistic, then frustrations grow and alienation develops. If employee owners truly expect to be "empowered" to exercise traditional management functions, then employee ownership will prove counterproductive to the operations of the business *as a business*. Without a clear delegation of authority from employee shareholders to management, managing an employee-owned company can be like trying to navigate a cruise ship when each of the tourists wants a turn at the rudder.

The paradox is that employee ownership, by its very nature, tends to diffuse authority. Depending on the extent of that diffusion, employee ownership can be ultimately self-destructive. In serving the best interest of the business, and derivatively the best interest of the employee owners, ESOP participants must clearly define and understand their respective rights, roles, and responsibilities within the organization.

"As CEO there were times I felt like the Saturday morning cartoon character perched on a bomb desperately trying to blow out the fuse."

In order to be truly successful, an ESOP must engage in occasional introspection. More succinctly, I call it the "gut test." Employees must ask themselves *why* they want to be owners. ESOP's are not panaceas for enhanced productivity and profitability. It is not an inalienable right that employee owners can work less but be paid more. Like any privately held business, owners must think and act like owners. Any business owner will gladly describe the toil it takes to be successful. Short term desires must be sacrificed for long term considerations. Gratification most often is not immediate, but rather deferred.

In an ESOP, the rewards of ownership must include the intangible self-satisfaction derived from meeting the challenges posed by today's business climate and from navigating through the dynamics of employee ownership itself. An appreciation of these intangible rewards tends to galvanize the ESOP and to mold a strength of business character which breeds further success.

Russian Employee Ownership Specialist Visits Ohio

Vitaly Miroshnichenko (Center) visits employee-owned Mantaline where he was hosted by Diane Kruis and Mike Navicky. Miroshnichenko, who heads the Kaluga Region Employee Ownership Program, also visited Joseph Industries, Republic Engineered Steels, Sharpsville Quality Products, and the Worker Ownership Institute, and spoke at the Ohio Employee Ownership Conference and the Kent State Business School.

NetNews

***Ohio's Employee-Owned Network** offers a full range of events in 1997 to serve the information and education needs of employee-owned businesses. See the Network calendar for the rest of 1997 on the back cover for the upcoming programs, forums, and roundtables on current issues and common concerns of employee-owned businesses. If you would like to learn more about a cost-effective membership for your firm, call **330-672-3028** today.*

ESOP Administration Committee members, plan trustees, and other company members with administrative or fiduciary responsibilities for ESOP plans from 20 different ESOP companies participated in a two-day program hosted by the Flood Company in Hudson on February 20-21.

Mike McEnroe leads forum participants on a tour of Flood Company Headquarters in Hudson.

Lou Ann Lambert and Karen Harris of Flood provided a brief history of the factors impacting amendment of their ESOP and their yearly plan administration cycle. Our hosts, members of Flood's *Pride in Ownership Committee*, arranged a tour for participants of corporate headquarters with the opportunity to meet and talk with people in sales, marketing, and customer service areas, as well as Pete Flood, company president.

The ESOP Administration Forum topic was "Keeping Your ESOP Running Smoothly," and it provided updates on tax laws, fiduciary and other legal issues, Department of Labor Regulations, and changes in accounting procedures for ESOPs.

A training session for ESOP administration and trustee committee members was held the following day. It addressed a number of key issues: directed vs. non-directed trustee roles, ESOP administration responsibilities, eligibility, allocations, dividends, forfeitures, cash accounts, vesting, distributions and diversification, voting, 5500 forms, internal vs. external administration, valuation, and repurchase liability.

Both sessions provided an opportunity for member ESOP companies to network, to share their experiences and problems with ESOP administration, and to learn more about each other's firms.

Mark your calendar! The next ESOP Administration Forum will focus on repurchase and diversification, and will be held on September 24, in Dayton, Ohio; and a second session of ESOP Administration Committee and Trustee Committee Training will follow on September 25.

CEO Roundtable

What do top executives from employee-owned firms talk about when they get together? At this year's CEO Roundtable held in Columbus on March 6, the discussion centered on the following topics:

- **Succession planning:** Though final responsibility resides with the Board of Directors, many ESOP firms involve employees in succession planning for top management using a variety of different approaches and strategies. This serves to increase the board's credibility with employees.

- **Election of Board Directors:** A process of education of all board nominees, not just the nonmanagerial employee nominees, is crucial for effective director performance. The avenues for education that many ESOP companies use includes formal training seminars and conferences and customer visits. Seeking knowledgeable outside directors, especially CEOs of other ESOP companies, has brought valuable expertise to the board of many ESOPs.

Mark your calendars for the CEO Retreat, August 21 - 22 at Atwood Lake. The program begins with a tour of Bliss-Salem in nearby Salem, Ohio.

Network Members Explore Safety Management

Employee owners from Hooven-Allison, Jet Rubber, Louisville Bedding, Quincy Castings Rable Machine, Sharpsville Quality Products, and Thycurb/Thybar, met on June 3 - 4 to share experiences about safety management -- especially the role of safety committees. For a few, safety committees were having quite an impact on improvements which have led, not only to a safer workplace, but to lower workers' compensation costs. For others, once-active safety committees had run out of steam and were in need of an overhaul. They will get their chance at the upcoming **Safety Committee Training Workshop, August 11-12, at the BWC's Pickerington training facility near Columbus.** For more information, call Dan Bell at the OEOC.

Ohio ESOP News

New Ohio ESOPs reflect succession planning

The Ruscoe Company in Akron recently setup an ESOP, and will become 100% employee-owned over time. The retiring owner felt a responsibility to the firm's long-term employees, many with 10-15 years of service. Through an ESOP, he was able to maintain the firm rather than sell out — and enjoy the ESOP tax benefits. Ruscoe's 50 employees produce, package, and market rubber-based adhesives and sealants. Two smaller divisions of the company produce speaker cabinets and colorants for the plastics industry.

The ROE Inc. motto "Built To Last" has deeper meaning since the 60-employee firm, located near Toledo, formed an ESOP. As owner Dan Pollock explained, "my wife and I studied the ESOP as a succession strategy since 1985 and decided it is the best vehicle to structure the company for the long haul as a great and enduring corporation, and the ESOP provides a reward to all the employees who help us grow." ROE produces, accumulation, and conveying systems for high-speed packaging lines in the food industry.


The office and production workforce at employee-owned W.J. Ruscoe Company in Akron.

Procter & Gamble won the Outstanding Public ESOP Company of the Year Award of The ESOP Association for 1997. "We value ownership and believe that our ESOP is the best way to live out this corporate philosophy," explained Carol Tuthill, P&G's Vice-President of Human Relations. P&G, headquartered in Cincinnati, manufactures a variety of consumer products worldwide with current sales of over $35 billion.

Jay Simecek, President of the Ohio ESOP Association presents Ohio Employee of the year award to Gary McCauley.

Gary R. McCauley, material controller in **Bliss-Salem**'s shipping and receiving department, was named the Ohio Employee Owner of the Year by the Ohio Chapter of the ESOP Association. As president of USWA Local 3372 and a member of the Bliss-Salem Board of Directors, McCauley has been instrumental in creating a cooperative work environment between labor and management. "Gary is truly a leader in the employee ownership movement," said Jay Simecek, Ohio ESOP Association Chapter President. "Gary has given his all to our company, and through his leadership and very strong support of employee ownership, Bliss-Salem achieved unprecedented success in 1996," said Rick Collins, President and CEO of Bliss-Salem. Bliss-Salem designs and builds rolling mill and associated equipment. *Reprinted with permission, Inside Bliss-Salem, Spring, 1997.*

Ohio Award Winners

The Chilcote Company, located in downtown Cleveland, is the 1997 Ohio Employee-Owned Company of the Year. The ESOP was established in 1984 as a succession strategy because, as current President and CEO David Hein explained, "it was important to the Chilcote family to protect the employees and keep their jobs Cleveland-based. The transition to employee ownership and an open-book style of management has paid big dividends," added Hein. Chilcote is a manufacturer of cardboard photograph folders, wedding albums, and finishing services for the printing industry with annual sales of more than $20 million.

Acquisitions Wanted

The **Will-Burt Company** is currently seeking to buy businesses or product lines related to current manufacturing and marketing competencies with sales from $.5 million to $10 million. Geography is unimportant. Joint ventures / licensing considered.

The Will-Burt Company is a successful ESOP manufacturer serving worldwide markets. The company's current core competencies include machining, metal fabrication, paint, and electromechanical assembly. With an ISO-9001 certified quality system, Will-Burt markets worldwide to military and commercial business in fields as diverse as telescoping masts, lighting, heating, environmental, and contract manufacturing. If are interested in selling or joint venturing, contact Jeffrey Evans, VP Development at (330) 684-5211; Fax: (330) 684-1933; E-mail: Jevans@bright.net.

1997 Ohio Employee O

"Best Practices in E

Best Practices in Employee Ownership, the theme of the 11th annual Ohio Employee Ownership Conference on April 4, attracted over 300 employee owners and other Ohioans who are considering the possibility of establishing an ESOP. Representatives from successful ESOP businesses discussed their philosophies and practices that achieve improved ownership and performance.

Corey Rosen of the NCEO, Raquel Anderson of Munroe Publishing, and Ann Mars of the Flood Company discuss best practices in customer service.

Best Practices in Team Approaches to Customer Service

Ann Mars, supervisor of customer services at **The Flood Company** in Hudson, coaches Technical Service Representatives who participate in various service teams on a rotating basis within the department with the goals of continuously improving service and using team members' talents fully. Said Mars, "the process involves lots of training, lots of tools, and gradually increased responsibilities. Empowerment means ownership at every level."

Raquel Anderson, a Sales Representative of **Monroe Publishing** in Monroe, Michigan, heads the Customer Focus Team composed of employee-owners and managers which was formed after an organizational survey revealed the need for an improved customer focus. After looking closely at the organization's strengths and weaknesses, the team set goals, made a formal commitment to great customer service, and formed subteams to focus on different sets of customers and get other employees involved in changes to the firm's traditional practices. "In a positive environment you can accomplish anything", said Anderson of their change efforts.

Best Practices in Shared Leadership

Kathy Cook, Dick Flickinger, Doug Pitts, and Jim Restifo, of **Bliss-Salem Inc.** presented the President's Council at Bliss, an appointed coalition of hourly and salaried members who work together to advise and counsel executive management, provide a companywide framework for open communications, establish a cooperative environment, and improve performance. Members, appointed by the presidents of the company and the union, participate in operations meetings, quarterly stewardship meetings, annual executive retreats, and the company's change review process.

Lori Thompson and Brian Rosenow of Bush Transportation Systems showcased Bush at the Company Showcase Reception.

Sheila Henderson and David Turner of **YSI** in Yellow Springs, an employee-owned firm which has been a pioneer in the arena of corporate governance since offering a board seat to a minority female director decades ago, described the more recent process of electing nonmanagerial employee-owner board representation. Turner, who recently completed a 3-year term as a company director, described how his background as the most vocal person at all-employee meetings often earned him the response of "you've got to understand -- we have a business to run here" for his input at board meetings. He grew into his director's role over the course of his term, learning how to focus on the big picture, and providing board members with insight into how the company really works.

Best Practices in Communications

Mike Garan and Tina Smith of **Weirton Steel**, a 48% employee-owned steel producer, explained that employee-owners have a right to know a great deal of information about the company and the ESOP, though communication is a challenge within a big company. A combination of meetings, newsletters, training sessions, and company-produced televideo newscasts have been essential from the beginning when the decision to establish an ESOP was voted by the firm's 5000 employees.

Mike Palitto of
Manufacturing
products at the C

Long and boisterous yearly shareholder meetings are one example of the deeper sense of responsibility that has emerged from a commitment to total communication at **Erie Forge and Steel**, as described by Joe Crotty, Gary DeHaas, and George Myers, representing the majority employee-owners at the Erie, Pa. firm. "I was one of the negative guys," Myers said, "But since joining the cost design savings team I see progress. When people have an idea they shoot it out to you." They told about their CEO who shows up in blue jeans and work boots to personally meet with members of all three shifts each month. Financial reports, adapted from Reuther's illustrated P & L, provide the performance results to all employee owners.

wnership Conference

ployee Ownership"

Videos document the problems raised at monthly safety meetings; workplace safety news is mailed home to the spouses; and almost everyone uses the company's electronic bulletin board.

Best Practices in New Employee Orientation to the ESOP

April Caudill, of **National Underwriter** in Cincinnati, described the ESOP committee's role in organizing yearly ESOP meetings, orientations for new employees, and an ESOP Education Center to educate the firm's employee owners on the company's quarterly financials, how to read ESOP share statements, and key terms related to the ESOP.

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Mike Palitto, a member of the ESOP Committee at **Reuther Mold & Manufacturing** in Cuyahoga Falls conducts a new employee orientation each October following the annual shareholders' meeting. These sessions, conducted with the firm's top executive, provides the history of the company, an explanation of the ESOP and the owner share bonus, and a Q&A session with accompanying written materials.

Karen King and Doug Morris, two members of the ESOP Advisory Committee at **Concrete Technology**, described how their committee fulfills its role to teach others what it means to be an owner. Members conduct an orientation to their ESOP and their 401(k) plan and launch other projects including a recent company-wide cost awareness contest.

1997 Ohio Employee Ownership Awards

Richard Biernacki, an outstanding leader in the field of employee ownership in Ohio and nationally, earned the 1997 Ohio Employee Ownership Award for lifetime service to employee ownership. Biernacki retired this year as CEO of Fastener Industries, the oldest 100% ESOP company in Ohio and a national model for employee ownership. Rich has given generously of his ESOP and business experience to those interested in employee ownership in Ohio, has served on the board of several ESOP companies in Ohio, and served on the advisory board of the Ohio Employee Ownership Center since the Center was established in 1987. Nationally, he served on the board of the National Center for Employee Ownership and is a long term board member of the ESOP Association, serving as Chairman from 1993 to 1995.

Sheila Henderson & Dave Turner of YSI

Rev. Art Fuller of the ANB Trust pulls names for six lucky winners of jackets contributed by the Dimco Gray Company as conference door prizes.

Ohio Representative Joan Lawrence earned the 1997 Ohio Employee Ownership Award for legislative leadership for her constant support when hundreds of her constituents lost their jobs in the Amana plant shutdown in Delaware, Ohio last October. As the representative for the 80th Ohio House District since 1983, she went the extra mile in advocacy with the Governor's office and the Department of Development to ensure quick responsiveness and assistance to the Delaware Appliance Buyout Committee during the shifting winds of the employee buyout effort.

Richard Biernacki of Fastener Industries receives the 1997 Ohio Employee Ownership Award for lifetime service to employee ownership from John Logue, OEOC director.

The Yorde Machine Inc. Buyout Committee and the Delaware Appliance Buyout Committee were honored with 1997 Ohio Employee Ownership Awards for their efforts to buy their facilities as described earlier in this newsletter. The Yorde Committee succeeded but after the conference the Delaware Appliance deal failed. "The Delaware Committee did a superb job," commented OEOC director John Logue. "If anyone could have gotten that plant open and running again, they were the guys. Everyone should be proud of them."

NEXT YEAR'S CONFERENCE

April 3, 1998
Akron, Ohio

Anchoring Capital, Securing Jobs

In a global economy, how do we anchor capital and jobs in Ohio?

Local loan funds targeted to invest in their communities are part of the answer. Ohio now has a number of such loan funds in the public sector at the city and county level; their money comes from repayment of Community Development Block Grant loans and Urban Development Action Grant loans. The State itself does a good bit of economic development lending from the Ohio Department of Development's programs. There are also some private sector local loan funds, including the Common Wealth Revolving Loan Fund in Youngstown and A New Beginning Trust in the Shenango Valley. These loan funds provide senior and subordinate lending to Ohio employee-owned firms.

What has been missing has been equity investment. As anyone who has struggled to avert plant shutdowns knows, lack of friendly equity investment is a key problem. Without the equity, you can't get the loans.

During the last several years, *Owners at Work* has reported in considerable length on efforts to anchor capital through a variety of local equity investment funds in the United States and Canada.

We've followed the development of the Crocus Fund in Manitoba, Canada, as one model for how to anchor capital locally. (See *Owners at Work*, summer 1995 and summer 1996) The Crocus Fund is a labor-sponsored mutual fund which raises its capital locally for local reinvestment. The Crocus Fund, now in its fifth year, has raised more than $60 million Canadian from some 14,000 shareholders in Manitoba.

Another model is the Steel Valley Authority's effort to develop regional funds that pool pension fund capital for local investment. (See *Owners at Work*, summer 1995.) In an exciting development that has great promise, the SVA has obtained foundation funding to support the development of such funds in *Pittsburgh, Cleveland, Baltimore, Boston, Seattle,* and *Milwaukee* in the United States and *Toronto* and *Winnipeg* in Canada. The Canadian funds will use the existing labor-sponsored investment funds -- the First Ontario Fund and the Crocus Fund -- as their foundation.

A third model calls for attracting conventional venture capital funds to employee ownership. *Churchill Capital* has the largest fund targeted for ESOPs. *American Capital Strategies* has a small fund for ESOP equity. Now *Keilin and Company,* which has done investment banking for a number of major ESOP transactions, including the United Airline's deal, is seeking to establish a new mid-market turnaround fund with a preference for ESOPs.

The Crocus Fund Takes Off

Sherman Kreiner

It has been five years since the Crocus Fund opened its doors for business. Crocus's purpose is simple: the Fund was set up to anchor Manitoba employees' capital in job-creating investments in Manitoba. To do this, we invest in partnership with growing closely-held Manitoba companies, helping them find capital for expansion; we help fund ownership succession; and we occasionally invest with management and employees to avert an outside buyer interested in moving our jobs south.

Crocus is sponsored by the Manitoba Federation of Labor as a labor-sponsored investment fund under Canadian law, but we invest in non-unionized as well as unionized companies. We screen all the companies we invest in for their health and safety records and their commitment to employee participation. We have a preference for investing in employee-owned companies or companies developing broader ownership structures, and we often expect to exit from our investment position by selling our stock to employees.

We also try to use our investment strategy to improve the quality of jobs. Working people's money ought to be invested to improve their working lives and those of their neighbors.

To put Crocus in an American perspective, it is a mutual fund set up to receive the Canadian equivalent of Individual Retirement Accounts. Our goal is to raise a large capital pool in small amounts from a large number of people. The model for Crocus and all the other Canadian labor-sponsored investment funds is the Quebec Solidarity Fund which has raised over $2 billion, and which is by far the biggest single source of venture capital in Canada. It is also a major tool for growing Quebec's economy despite the movement of English financial institutions out of Quebec.

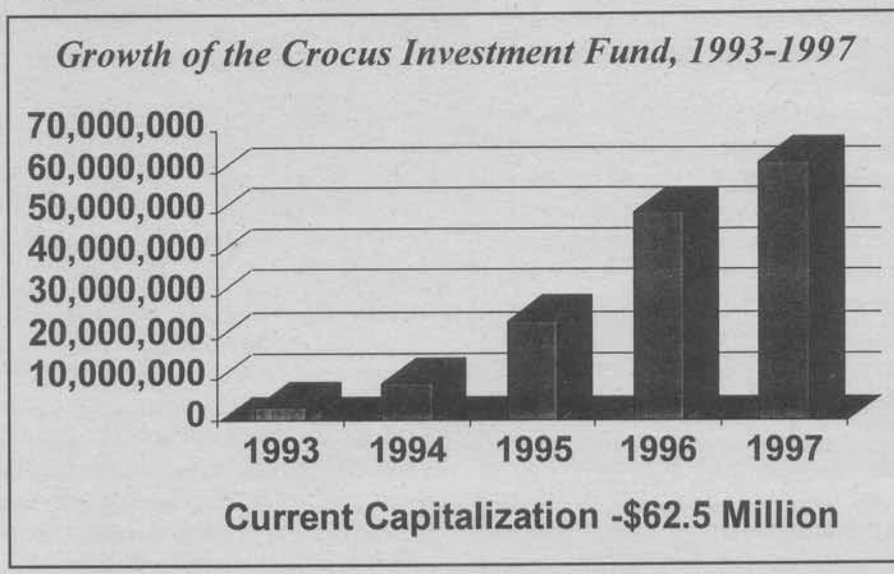
Five years of growth

In taking status of the Crocus Fund's first five years, we have to look at the numbers -- money raised, money invested, jobs created, businesses retained, increases in net asset value. These are very strong numbers -- numbers which we believe continue to make us the leader among the twenty-four Canadian labor-sponsored venture capital corporations. These numbers continue to exceed the expectations of even the most optimistic among us when we went to market in 1994.

By the end of our 1997 investment season -- our fourth investment season -- the Fund's assets had grown from our initial capitalization of $3.25 million to $62 million. (See the graph.)

Most of this new capital came from individual shareholders. The Fund attracted 5,000 new shareholders in 1996 and another 2,000 new shareholders in 1997, bringing the total number of Manitobans who have invested to close to 14,000. We have also received new institutional placements from the Workers Compensation Board, and Manitoba Blue Cross.

Our targeted investment portfolio almost tripled over the past year, with about $30 million now invested in small and medium sized Manitoba businesses. These investments, in what Martin Cash of the *Winnipeg Free Press* called "an all-star list of growing, private Manitoba businesses," contributed to the job security of more than 3200 Manitoba employees, directly saved more than 220 jobs, and facilitated the creation of close to 1000 new permanent jobs. In addition, our recent investment in Isoboard Enterprises, which will manufacture particleboard from straw stubble, will create close to 350 construction jobs over the next year and a half.



But as we have said over and over again, the Crocus Fund was not created solely to generate numbers. When you invest in the Crocus Fund, you are taking a stand for all Manitobans against the effects of globalization. You are saying that there is an alternative to the low road of wage reduction, downsizing, and community abandonment.

Two of our recent examples are illustrative.

One of our investee companies is Carte International. Carte manufactures transformers for the electrical utility industry from two Manitoba facilities - one in Winnipeg and one in Morden. Prior to 1996, the company had been through a restructuring and was operating profitably. When the owners moved to sell, their most attractive suitor was a U.S. based multinational. Their purchase would have been primarily for the customer base, not for the operating capacity. A complete shutdown of the Morden facility and a significant downsizing of the Winnipeg operation were likely.

When Crocus was approached by Carte management to meet the U.S. offer and maintain full operations in Manitoba, we welcomed the opportunity to take a careful look. Our joint ownership with the management group, which we believe will soon be expanded to include all employees, has allowed the company to remain Manitoba owned and operated - preserving more than 180 jobs.

We also invested in National Leasing Group, a Manitoba headquartered company which provides commercial leases on small ticket items all across Canada. The availability of a friendly investment partner ensured that the company could grow rapidly and continue to compete with its giant competitors from right here in Manitoba. National Leasing also eagerly implemented a broad-based employee ownership plan.

Another exciting development in 1996 was the opening of Green Gates in Headingly. By the end of the year, Marion Warhaft of the *Winnipeg Free Press* had selected it as restaurant of the year. For us, Green Gates is not just an extraordinary country inn. It is also an opportunity to have significant labor market impacts on a sector which has generally viewed its workforce as transient and treated them poorly. Green Gates is dedicated to the proposition that high quality restaurant jobs, with good wages and benefits, career advancement opportunities, empowerment through participation, and financial security through ownership, will translate into high quality service.

If Green Gates is successful in proving this connection, they will put pressure on their competitors in this sector to match their practices and transform restaurant work into an occupation with a viable, long-term career track. We are assisting their effort through the provision of extensive supervisory training and financial education programs on-site.

Beyond the numbers

Thanks to the support of thousands of Manitoba employees, we've had the capital to make good investments in good companies. But Crocus is more than numbers.

When you invest in the Crocus Fund, you are committing our community to a path through which we will own our own economy. We are investing our savings for our own benefit. We are supporting our entrepreneurs and helping them grow their businesses. We are competing through long-term investments in people as well as hard assets, and by creating quality jobs for empowered workers motivated by a financial stake in their own company.

These steps which we are taking are important for our financial security, for the quality of our lives and for the opportunities which they will provide to our children - a good and productive job in our own home town.

These steps are also important to protect our democracy. One of the primary missions of the Crocus Fund is to promote employee ownership and employee participation in corporate governance and management. We have done that in a number of creative ways. We have designed unique ownership plans which provide an ownership stake for all of a company's employees. We have been assuring ourselves, before we invest, that senior managers of companies in which we are considering an investment are committed to participatory management. We have created a CEO Roundtable as a forum for senior managers of our investee companies where the best practices we know for effective participatory management are introduced and discussed. We customized in-house educational programs which increase the capacity of workers to participate meaningfully by teaching them how to read and understand financial statements, as well as communication and supervisory skills.

Employee ownership maintains local ownership. It assures that business decisions are made locally. It provides a mechanism for inter-generational transfer. Comments by senior managers at Brandon-based Cando Contracting, another 1996 Fund investee which has expanded its already broad-based employee ownership program, illustrate this point. Controller Colleen McCarl notes, "The whole buy-in concept is an excellent opportunity, particularly for young people. I can't even imagine how I would have felt if someone had given me the chance, at 22 years of age, to buy shares in a successful company."

Cando President Gord Peters, while still far from retirement age, commented, "I said a long time ago that I did not feel that an individual was successful in business until the business went from one generation to another. It's been my wish for sometime to have an employee ownership package."

Finally, employee ownership is important because study after study has shown that companies with broad-based employee ownership and an effective shopfloor participation program consistently outperform conventional companies.

There are a variety of different reasons for that. The most obvious is because better decisions are made because people close to the decisions have input. Sometimes that's true. Other times, it isn't. Sometimes it's simply because decisions are better understood. Exactly the same quality decisions are made, often by the same people, but because you understand why your supervisor made a particular decision, you are more likely to implement it more willingly and more effectively. There are a variety of reasons why we get these positive empirical outcomes. In the end though, one critical reason for our companies to facilitate participatory management is because when our companies are performing well, our investments are performing well, and our shareholders are reaping the benefits.

Beyond the plant gate

Social science studies in North America, beginning as early as the late 1950's, barely a decade after the fall of the authoritarian Nazi regime in Europe, showed that people believed in democratic values in the abstract, but not when confronted with specific uncomfortable applications. They, for example, believed in freedom of speech, but opposed the right of someone with views of which they disapproved from speaking on the courthouse steps.

Why did this occur? We teach the platitudes of democracy in

Crocus took a 24% equity stake in the Manitoba Moose, a professional hockey team. It's expected to create 60 new jobs directly, as well as indirect jobs and community benefits. Does community sports ownership make a difference? Ask those Packer fans in Green Bay. (Photo Walter Kaiser/Custom Images)

a formal civics or history class, but we teach that class inside of an institution which is not terribly democratic. Why is that? One of the reasons is because they are preparing to work in workplaces which historically have not been democratic. So there is an enculturation process occurring in schools, families and other institutions to prepare people for a certain kind of work environment. That work environment was successful for a long period of time. But one of the unanticipated consequences of that is a society created in which belief in democracy was a mile wide and an inch deep.

But if you can change the workplace, and are able to do that on a large scale, you create a lot of pressure to change the institutions which prepare people for the workplace. So a more democratic workplace results in a more democratic educational system which results in a more democratic family. All of those things promote, in a very meaningful way, democracy in our society. Democratic workplaces increase the prospects that authoritarian or totalitarian governments couldn't come in with the kind of results that have existed in the Western world, even in this century.

When you have that result for society, combined with the fact that these companies outperform conventional companies, it becomes quite compelling for us to go down this road we are presently travelling. I want to thank the CEO's who have come to share this vision with us and look forward to walking down this road with them and the 3200 workers and worker-owners who make their companies successful.

I can't imagine better traveling companions.

Sherman Kreiner is the CEO of the Crocus Fund in Winnipeg, Manitoba. The numbers cited are in Canadian dollars; as this article went to press, the Canadian dollar was worth about 75 cents. This article originated as Kreiner's remarks to some 300 shareholders at the Crocus Fund's fifth annual general shareholders' meeting in February 1997.

Focus on Investment Funds

Do Labor and Community Investment Funds Make Sense in the US?

The SVA says it's worth trying

The Steel Valley Authority (SVA), an eleven year old, labor-led economic development organization in the Monongahela Valley, the center of Pittsburgh's once-powerful steel industry, is providing leadership in new directions toward economic renewal.

Traditional economic development organizations use existing mechanisms to create jobs and business by trying to bring together entrepreneurs, public sector funds, capital investment and banks. Tom Croft, SVA Executive Director, found the traditional approach much too slow. "For real progress, we need control of investment capital," Croft said in a recent interview. "The pace of development is glacial. It takes forever. We've been fighting the right battles with the wrong artillery. Having access to the right levers isn't enough. We need to create a new lever."

The new lever Croft seeks is access to a small segment of the vast pension reserves, retirement money from millions of American workers, that currently are invested according to the standards of the market. These standards are most often short-term profit and overseas investment, both with a high negative impact upon workers' interests. The 1996 Industrial Heartland Forum sponsored by the Steelworkers, other labor groups, and the SVA and chaired by Leo Gerard, International Secretary-Treasurer of the USWA, dramatically demonstrated the need and ability of the capital system to expand investment in domestic manufacturing. Keynote speaker Richard Trumka, former president of the United Mineworkers of America, now Secretary-Treasurer of the AFL-CIO, in his remarks at the forum, strongly reinforced the idea that pension funds should be used to support workers' needs rather than corporate desires for profit.

Croft and the SVA moved immediately into action by applying to several foundations to foster efforts to create labor-sponsored investment funds in major American cities. They sought and received grants from a number of national foundations, including the Ford and Mott Foundations. This funding will enable SVA to offer legal, technical and marketing assistance to venture capital coalitions in six U.S. and two Canadian cities. The cities targeted are Pittsburgh, Cleveland, Baltimore, Boston, Seattle and Milwaukee in the U.S. and Toronto (through the Ontario First Fund) and Manitoba (through the Crocus Fund) in Canada.

Federal support is also available. The U.S. Treasury Department, through the Community Development Finance Initiative, is encouraging community-based venture capital development and equity funds throughout the nation. As Croft says, "We are not the only ones to realize that the answer to massive disinvestment is a new source of funding for reinvestment. The Clinton Administration is very supportive of bottom-up development efforts. This is the time to make it work."

The SVA has already established a solid track record in assisting business and labor in Western Pennsylvania. The Early Warning System established in twenty counties of Western Pennsylvania to work with troubled businesses has saved over 6500 jobs in the last five years. This accomplishment becomes even more impressive in view of the fact that, according to Croft, "Mergers and acquisitions have hit their highest dollar volume level ever reaching $650 billion. This is accompanied by massive downsizing and unparalleled lay-offs. American workers suffered 3.4 million lay-offs in 1995 alone. What has fueled this corporate action is that fully half the money for these mergers comes from workers pension funds."

While the SVA model is uniquely American, much of the inspiration comes from North of the border. Croft notes that in the province of Quebec, where separatist politics has led to high levels of disinvestment by the English-speaking financial community, regional credit unions have captured the lion's' share of deposits and are investing them in their own strong manufacturing base. Similarly, the labor-sponsored Quebec Solidarity Fund is the largest source of investment capital in Canada.

What about Conventional Venture Capital?

A number of efforts have been made over the years to organize venture capital funds for ESOPs that drew on the conventional capital market. They are beginning to pay off with two large funds.

Churchill Capital has raised a $188 million private capital partnership. *Churchill ESOP Capital Partners* provides sub-ordinated debt, preferred stock or minority equity, and control equity investments in amounts ranging from $5 million to $25 million to management and employee-owned companies. Churchill has targeted middle-market ($15+ million in sales) manufacturing, fabrication, distribution and service businesses for growth, acquisitions, liquidity and recapitalization. Churchill finances partial ESOPs, 100% ESOPs, and manage-ment buyouts. Among its eight transactions to date are three 100% employee-owned firms.

There is hope on the horizon for buyouts. The principals of ***Keilin & Co.***, the investment banking firm which has done a number of large ESOP transactions including United Airlines and Algoma Steel, is currently raising the *Crossroads Special Situations Fund, L.P.*, to invest in distressed middle market companies. Crossroads is seeking commitments for $100 million. General Electric Capital has already committed $10 million, and the fund is expected to be raised by the end of the year. Employee participation will be an important component of Crossroad's transactions. In addition, the fund screens for positive employee relations and a company commitment to developing employee skills — "high road" characteristics that more funds should imitate. Besides doing initial ESOP transactions, Crossroads' prospectus cites sale of Crossroads' stock to the employees as a possible exit strategy for the fund.

Safety Management At Westfield Tanning Company

The 225 employee owners at Westfield Tanning Company face a challenging manufacturing process every day. Their plant produces tanned leather for the shoe, belt, glove and harness industries, so heavy lifting, wet surfaces, confined spaces, above-ground work and cutting equipment pose constant safety and health dangers.

In 1991, Westfield Tannery paid over $500,000 in annual workers compensation premiums. Today, the same plant with

Westfield's safety committee: Back row, left to right: Dave Holley, Frank Northup, Bob Barner, Ken Manny; Center row: Jim Bacon, Tim Lampman, Bill Wright; Front row: Joyce Burdick, Sandra Baker, Gwendolyn Doan, Alvin Swan, and Pat Clark, safety director.

the same number of employees and a greater volume of production has cut the annual premium payment to less than $200,000. The dramatic drop in incurred losses (actual costs of injury), from $550,000 in 1991 to under $25,000 in 1995, reflects the sharp decline in pain and suffering of worker owners. A combination of vigilant committee work, extensive training, a shift to employee ownership, emphasis on product quality and a unique incentive program changed the culture from one of carelessness to one of caring -- about each other and about the company's bottom line.

"We decided we just couldn't afford it anymore," says Pat Clark, Safety Director at Westfield. A committee, composed of one volunteer from each department, was formed and began meeting once every two weeks to make decisions about safety problems and solutions, safety investments, training, policies, and related issues. A monthly newsletter kept all members of the firm informed about what the Safety Committee was doing.

Each committee member was given two hours per week to inspect his or her own department for health and safety hazards. They were given authority to write work orders and even shut down the line if a serious hazard was identified. Within the department, work orders were prioritized in terms of mortality threat, injury threat, and exposure threat.

Accident and "near miss" investigations guide committee activities. "We have an area where people stand on a beam five feet above the ground hanging leather for drying. One guy fell and, through luck, the foreman caught him," Clark said. "But a fall like that can be fatal. The Safety Committee immediately focused on that area and devised a way to eliminate that danger. We have not had a single accident or near miss in that area since then."

In the second year of operations, the Safety Committee received extensive training to achieve the status of a "State Certified Safety Committee," a designation of the Pennsylvania Bureau of Workers' Compensation that provides an immediate rebate ($32,000 for Westfield) and annual premium reductions. The training covered safety management approaches, state and OSHA regulations, and injury and claims management techniques. For the first time, Westfield Tanning Company is developing written safety policies for all departments. The policies are based on OSHA standards, but sometimes are stricter, and are tailored to specific conditions within the tannery.

Members of the Safety Committee had a rough time at first. Calling it a "thankless job," Clark recounted incidents of individuals or whole departments that resisted the good intentions of the safety committee person. "People felt the extra time spent in putting on a safety harness or safety glasses slowed their work and productivity, and they resented it."

The safety committee overcame resistance through simple stubbornness. The first two years were really hard. "This whole process has been about changing attitudes," Clark says. Departments where there had been accidents were resistant. "We just kept at them. They finally realized that we weren't going away."

Three other factors helped. One was Westfield's quality focus. While workers resisted the safety focus because it slowed productivity, Westfield Tanning, as one of the few remaining non-toxic or 'vegetable' tanneries, places priority on product quality. The emphasis on quality was linked to safety. "Shortcuts can hurt people and hurt product quality," said Clark. "People understand that."

The second factor was employee ownership. Since becoming majority employee-owned, employee owners were given financials and could, for the first time, view the impact of the workers compensation bills on the bottom line. Since the company's bottom line now belonged to them, they could understand the monetary value of safety measures.

Third, bottom line savings were shared with all employees. For each six months that the firm went without a lost-time accident, all received $100 (now it's up to $150). The company went 898 days - two and a half years - with no lost-time accidents. Members of departments free of major accidents for one year receive an all-expense-paid dinner for two at a local restaurant of their choice.

"These things [concern about quality, profit, and financial incentives] may have started the ball rolling," said Clark, "But the result was that people began caring more about each other, watching out for each other. It really took five years to turn the whole company around on safety, but it was worth it. We just had our first lost time claim in almost two years. With this manufacturing process, it is hard to be perfect -- but we have to keep trying."

ESOP ASSOCIATION RUNS FIFTH ANNUAL EMPLOYEE OWNER RETREAT

This year's **ESOP Association Employee Owner Retreat** will be held near Chicago, at the Indian Lakes Resort in Bloomingdale, and **staffed again by the OEOC**. The Retreat is a three-day training seminar, where *non*managerial employee owners learn from and interact with their peers from other ESOP companies. In small groups, structured exercises, and informal discussions, employee owners develop new team problem-solving skills, become more knowledgeable about ESOPs and company financial statements, and gain a new perspective on employee ownership at their own companies. While any employee owner is welcome, the program is designed primarily to give hourly and salaried nonmanagerial employees an opportunity to learn *with* and *from* their peers. Typically these come from outstanding ESOP companies where developing a culture of ownership is considered an important aspect of corporate success. Participants are often members of the board of directors, ESOP committees, problem-solving teams, or company trainers, and informal nonmanagerial leaders. *Sending 2 to 4 co-employees raises the effectiveness in bringing the learning back*. See the box below for more information.

> *WHAT PAST PARTICIPANTS HAVE SAID:*
>
> ***"I think all employees should have the chance to go through this; this way they can hear from other companies and see how they work with ESOPs and make it work!"***
>
> ***"I learned more this weekend than I ever expected. Now I can look through our summary plan and actually understand it!***
>
> *"It's a great experience!"*

Do you want your firm's employee owners to:

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

They can do all this and more at the ESOP Association's 5th Annual

EMPLOYEE OWNER RETREAT

INDIAN LAKES RESORT
Bloomingdale, Illinois

August 8-10, 1997
Chicago Area
(20 minutes from O'Hare Airport)

ESOP™

Schedule: The Retreat kicks off at **Noon on Friday** and concludes with a box lunch at **1pm on Sunday**.

Cost: **$475** for first participant; **$325** for additional participants from the same firm. Includes all meals and materials.

Lodging: Call Indian Lakes Resort, **630-529-0200** to reserve a **$122** room (can be used as a double).

To Register: Call the ESOP Association, Rosemary Clements, **202-293-2971**, or the OEOC, Karen Thomas/Dan Bell, **330-672-3028**.

Work Co-sponsored by:

COOPERATIVE CHARITABLE TRUST

OWNERS AT WORK

Volume IX, No. 1 Summer 1997

IN THIS ISSUE:

OEOC
309 Franklin Hall
Kent State University
Kent, OH 44242

OEOC

Ohio Employee Ownership Center

UPCOMING 1997 NETWORK EVENTS

August 11 & 12
Columbus, OH
"Safety Always"
Safety Committee Training

August 21 & 22
Atwood Resort
Second Annual CEO Retreat

September 18 - 20
Atwood Resort
Employee Owner Leadership Development Retreat

September 24
Dayton, OH
ESOP Administration Forum
Repurchase & Diversification

September 25
Dayton, OH
ESOP Administration Committee & Trustee Committee Training

October 16 & 17
Hudson, OH
Teaching Financials to Employees
Train-the-Trainer Workshop

October 30
Kent, OH
Annual Network Meeting
CEO Roundtable
HR Representatives Roundtable

November 12
Cuyahoga Falls, OH
Participation & Communication Forum: *Workforce Training*
Reuther Mold & Manufacturing

December 4 & 5
Hudson, OH
Front Line Leader Training
Leadership for Employee Involvement

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

OTHER EVENTS

August 8 - 10
Chicago, IL
Employee Owner Retreat
ESOP Association
For details, see page 14

October 3
Columbus, OH
Ohio ESOP Association
Fall Conference
Call Dave Gustafson, 216-689-3198

September 29 - October 2
Cleveland, OH
USWA
Worker Ownership Institute
Fall Conference
Call Bruce Householder, 412-562-2254

October 29
Columbus, OH
NCEO ESOP Workshop
Call Ryan Weeden, 510-272-9461

April 3rd, 1997
Mark Your Calendar
Akron, Ohio

Call 330-672-3028

April 3rd, 1998
12th Annual OEOC ESOP Conference