

# OWNERS AT WORK

OHIO EMPLOYEE OWNERSHIP CENTER

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## Steel Crisis Hits Employee-owned Firms

**T**he steel crisis of 1998-99 wreaked havoc among employee-owned steel companies and suppliers. Weirton Steel laid off a quarter of its workforce. Republic Technologies, in which employees sold their interest in 1998, laid off one thousand workers, and shut eight operations. Indiana Steel and Wire filed bankruptcy. Sharpsville Quality Products was thrown into crisis. And Bliss-Salem, long the flagship of Ohio employee buy-outs to avert shutdown, went into liquidation.

In 1986, employees led by Steelworkers Local 3372 bought the E. W. Bliss plant in Salem when it was threatened by shutdown. E.W. Bliss, a producer of metal forming equipment founded in 1857, had served as a cash cow for a number of years, first for Gulf & Western, a conglomerate, and then for Carlisle Capital, a financial investment house. By the time the employees bought it, it had been badly drained.

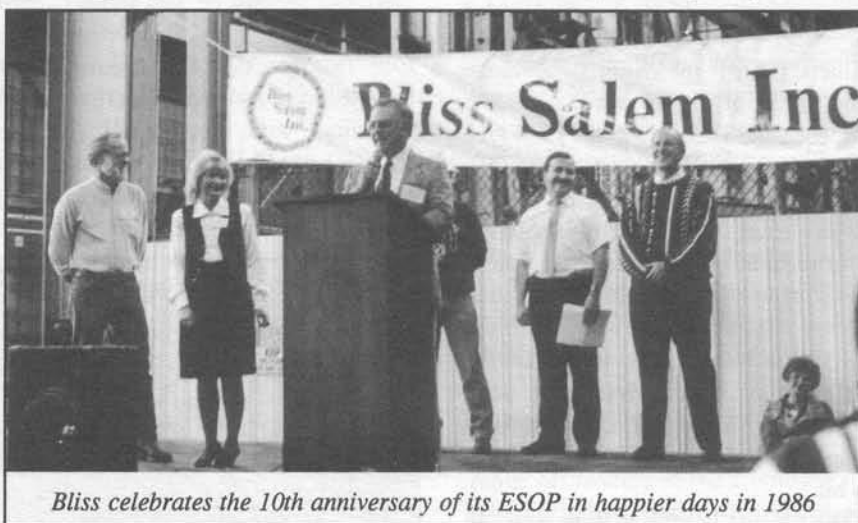
Through employee sacrifice and hard work, the Salem operation, renamed Bliss-Salem, struggled back from the brink. A builder and retrofitter of rolling mills for the steel and aluminum industries, employee-owned Bliss rebuilt its business in the 1980s as the only domestic full-service rolling mill builder, doing engineering as well as mill construction. It added a line of transfer cars for the same customers, and started building them in Salem too. It reoriented itself in the 1990s to focus on the foreign as well as the domestic market. In 1996, Bliss won the Governor's award for excellence in exporting.

All this turned sour in 1998, as both foreign and domestic steel producers cancelled or deferred most capital investment. Bliss's orders plummeted. The timing of CEO Rick Collins' previously announced departure could not have been worse.

Bliss's Board, which followed the Steelworker formula of two union, two management and three outsiders chosen jointly, hired a new CEO, Lal Teckshandani. After a few months, Teckshandani took the company into bankruptcy and then into liquidation. The engineering department was sold to DMS Engineering Corporation, a French-based firm.

Despite the existing work, the shop was shut and the remain-

ing assembly work was contracted out. The guys in the shop nicknamed one manager "the secretary of agriculture" because it appeared that his entire job consisted of farming work out. "As they shipped all that work out," commented Tom Moyer, former union local president, "the plant looked just like a truck depot."



*Bliss celebrates the 10th anniversary of its ESOP in happier days in 1986*

How could an employee-owned company go from being an outstanding success in 1996 to collapse in 1998-99? The answer lies in the economics of the new global economy.

### Global economics 101

When the Thais devalued the *baht* in July 1997, few Bliss workers thought their jobs were in danger. But in the new global economic order, a round of competitive devaluations thousands of miles away set off the meltdown of the emerging economies in Asia and did immense damage in Main Street America.

Over the next 15 months as speculative capital fled, a number of major developing steel exporters -- Indonesia, Korea, Brazil, and Russia -- slashed the values of their currencies by 50 to 75%. Their internal markets collapsed because of the economic crisis caused by capital flight. So they stopped ordering American equipment, and started dumping the steel that they could no longer sell at home in the US market.

Meanwhile Japan and our NAFTA partners Mexico and Canada let their currencies decline relative to ours by 10 to 25% to protect their international market share. This made their exports into the US cheaper too.

The result: imports flooded our market, American steel prices plummeted, and American producers laid off workers,



shut mills, and stopped ordering equipment.

Unbelievably, our government did nothing whatsoever in the first months as steel hemorrhaged red ink and jobs, except to mouth pious platitudes about global "free" trade. It wasn't until the damage had already become severe that the government ruled in case after case that foreign producers were illegally "dumping" steel -- i.e., selling for less than production costs -- in the American market. Finally we slapped countervailing duties on the dumping, but by then, much damage had already been done.

### Riding out the crisis

"Could we have survived as a smaller company?" wondered Moyer in retrospect.

Thirty miles away in Sharpsville, PA, another Steelworker local at a steel industry supplier put together its own operating plan for the company as a survival strategy as it, too, faced a market collapse in late 1998.

Sharpsville Quality Products (SQP) got national coverage when the employees occupied the plant for 42 days in 1993 to keep liquidators out; they reopened the shut facility in 1994 (see *Owners at Work*, summer 1994).

There are easier things to do than reopening an ingot mold foundry. From the day SQP reopened, the company has struggled with the dual problems of recapturing an adequate share of a declining market and raising capital to renovate and upgrade the plant. It's never been an easy task, and it has worn out more than one manager. Indeed, SQP has been run by four different CEOs and, for a period, by a collective management team since reopening in 1994. Still the company managed to reach breakeven and reinvest more than \$1.2 million in upgrading the plant... before the steel crisis hit.

The steel crisis that sank Bliss virtually sank SQP as well. In fall 1998, its orders dried up and the company began hemorrhaging cash. Outside shareholders, who had made the 55% employee buyout possible, lost patience and decided to pull the plug. At Thanksgiving the Chairman of the Board instructed

management to cease taking orders and begin an orderly shut-down.

The local union and managers together drafted a new operating plan, premised on a wage and manning reduction, to reach breakeven despite the collapse of orders. After two heated board meetings on the plan, the board voted 5-2-1 to accept it and to keep the company open. That precipitated the resignation of the Chairman of the Board and the CEO. (OEOC Director John Logue serves on the SQP board as an outside director nominated by the Steelworkers, and voted with the majority.)

Moving with alacrity, the remaining board members hired a new CEO, New York investment analyst Harry Kokkinis, who had done business analysis for the SQP buyout committee in 1993-94. Together, Kokkinis and the employees slashed costs, brought down overdue payables, reassured customers, and stabilized the business. In December 1999, employees celebrated the first anniversary of the second rebirth of the company with a substantial order backlog.

"This was the second time conventional business judgement said 'Shut the plant!'" commented Logue at that SQP employee meeting. "First time around, you had to sit in for 42 days to get your jobs back. The second time round, we did it with a vote in the board room. That was a product of your owning a majority stake in this company." □

## New Steel Jobs Initiative

**T**he Federal FY 2000 Labor appropriations bill contains \$250,000 for an innovative job retention project developed by the Ohio Employee Ownership Center.

The OEOC has been working to avert plant shutdowns and retain jobs in Ohio since its inception in 1987. During this period, the OEOC has provided preliminary technical assistance to more than 360 employee ownership efforts and has assisted nearly 11,000 employees in buying all or part of 51 companies. Many of these employees would otherwise have lost their jobs — many resulting from plant shutdowns or corporate downsizing.

The new Federal initiative is geared to provide a specific and quick response to closures stemming from the crisis in the steel and aluminum industries. The OEOC will establish a national network providing support and technical assistance to employee and community buyout efforts as a means to retain jobs in these industries and help distressed communities survive.

While the factors behind the steel crisis—imports, currency devaluations and subsidies—may be transitory, they can and have done major long-term damage in steel-making communities through closures of some marginally competitive facilities.

The U.S. Department of Labor will administer the grant. The funds will become available after July 1, 2000. However, assistance may be available immediately in certain locations. For more information on this program, or for any questions or assistance concerning employee ownership, contact the OEOC at 330-672-3028. [oec@kent.edu](mailto:oec@kent.edu) (email). □

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 and delivers training programs for employee owners, facilitates cooperation among employee-owned firms, coordinates a comprehensive succession planning program, and assists international efforts to privatize businesses through employee ownership.

The OEOC is funded by grants from the Ohio Department of Development's Office of Labor/Management Cooperation, the Ohio Bureau of Employment Services (OBES), the Cleveland Foundation, the Ford Foundation, and the United States Information Agency as well as contributions from Kent State University, *Friends of the Center*, and the companies that comprise Ohio's Employee-Owned Network. Address: OEOC, 309 Franklin Hall, Kent State University, Kent, Ohio 44242. Tel: (330) 672-3028 Fax: (330) 672-4063 email: [oec@kent.edu](mailto:oec@kent.edu) website: <http://www.kent.edu/oec>

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## Envisioning Employee Ownership in the 21<sup>st</sup> Century

**E**mployee ownership has come a long way in the last quarter of a century in the United States. From a few hundred employee-owned corporations with a few thousand employees in 1973, the employee-owned sector has boomed to encompass more than 11,000 companies with 9.5 million employee owners today. In addition, there is significant employee ownership through company contribution of stock in match to 401K plans and through broad stock option programs. However, unlike ESOPs, these forms of ownership lack mechanisms for establishing employee influence in corporate decision-making; they lack the pooled equity aspect of the ESOP. Consequently, they are useful in broadening ownership but have not to date given rise to broader employee influence.

This remarkable growth in employee ownership and employee influence was a consequence of the ideas of San Francisco investment banker Louis Kelso and the political acumen of Louisiana Senator Russell Long. Kelso developed the concept of the employee stock ownership plan as well as several other systems to broaden ownership as a response to what he saw as the inexorable tendencies in modern companies of increasing portions of income to accrue to capital; Kelso pushed the idea that along side labor income, all working people ought to have a stream of income from capital created through their work in the company that they worked for and owned. Senator Long, chair of the Senate Finance Committee and the son of Huey "share-the-wealth" Long, brought his legendary tax writing ability to bear on broadening ownership. Between 1973 and his retirement from the Senate in 1986, Long sponsored the key tax provisions that created the rapid growth of ESOPs that we have seen in the last quarter century.

However, tax breaks do not create a movement. Whatever employee ownership in America is, it is not a movement. At least not yet.

Do American ESOPs have a common denominator, other than using a tax-advantaged pension plan to build some employee equity? "ESOPs," as former Fastener Industries' CEO Rich Biernacki liked to say, "are just like snowflakes. No two are alike." That has been both a strength and a weakness. Diversity is the strength. Lack of commonality is the weakness.

One of the weaknesses of employee ownership in the US has been the lack of mass support. While ESOPs are designed to broaden ownership, there are few links between the ESOP community and other groups which have labored in the vineyard of broader ownership: the agricultural cooperatives, the consumer cooperatives, the credit unions, the mutual insurance companies. We need to reach out to build those links.

Employee ownership is not high on the agenda of the organizations and movements which speak for those with little or no property in this property-owning democracy of ours. Look on the agendas of the organizations representing Afro-Americans, Chicanos and other Hispanic Americans, or labor. Can you find employee ownership? We need to build that agenda together.

Employee ownership fits into the Jeffersonian vision of an America in which every working man or woman owns productive assets. It ought to be part of a national political debate. It ought to be a plank in both parties' campaign platforms. It ought to be a part of every candidate's stump speech. It's as American as apple pie.

With the coming of a new century, and a new millennium, it is time to take stock of where employee ownership has been and where it is going. Consequently, *Owners at Work* has asked a range of leaders in the employee ownership community nationally and internationally to reflect on various aspects of that future. Their thoughts will appear in this special focus section on "Envisioning the Employee-Owned Future" over the next several issues. Here are the first two articles in the series.

### Whither Employee Ownership?

*Corey Rosen*

**L**et me make my disclaimer first. I have some ideas about what I think will happen to employee ownership in the next few years that I think are reasonably reliable. After that, your guess is as good as mine. After all, who among us in 1991, when we estimated there were one million employees working for companies that gave stock options to all their employees, would have said that by the end of the decade, the number would be at least eight million, and would surpass the number of ESOP participants in the next year or two? Who would have guessed that the most intriguing, and possibly important, trend in employee ownership in the last few years has been the growth of multinational employee ownership plans. And to look back a little further, who in the 1980s thought that a) the Berlin Wall would fall, b) the Soviet Union would col-

lapse, c) communism would die out in Europe, and d) employee ownership would be practiced on a very broad, if very flawed, way throughout many of these formerly communist states. Don't count me in that group of people who saw it all.

#### ESOPs

On the theory that the present is the best predictor of the future, let's look at the state of employee ownership today. There are about 11,500 ESOPs covering about 9.5 million employees. The number of ESOPs is up only about 1,000 from what there were a decade ago and the number of employees has declined slightly. This is the result of a number of factors.

First, in the late 1980s, many public companies set up ESOPs, largely as a means to fund their matches to 401(k) plans.

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It's a little complicated just how this worked, but basically companies were able to fund their commitments to the 401(k) plan partly out of the increase in their stock value. Public companies loved this – for a while. In the early 1990s, the Financial Accounting Standards Board said that the companies must start accounting for the cost of the plan based not on the original cost of the shares, as they had been doing, but at the current value of the allocated shares. Nothing really changed in what the company was doing, but the public perception did. That could hurt share prices, so many companies started terminating their ESOPs. These public ESOP companies accounted for at most 15% of all ESOPs in the late 1980s, but had the lion's share of employees, probably 70% or more. Hence the decline in the number of ESOP participants.

During the 1990s, private companies continued to be drawn to ESOPs, however, largely to provide a market for shares of existing owners. During the recession, about 400 new ESOPs were set up each year, while about twice that number has been set up during the recovery. This would add more plans to the total numbers except that there are always companies being sold and plans being terminated for various reasons (bankruptcy being one of the least common). Probably 4% to 5% of all plans

***There is every reason to think that broad options will continue to grow, and grow rapidly.***

are terminated each year. So as the total number of ESOPs grew, just to maintain a modest growth, the number of new ESOPs had to keep getting larger. There is no apparent reason why the number of new plans set up each year will increase significantly, so the net growth in ESOPs will probably reach an equilibrium point in the next several years at around 13,000 to 16,000 plans.

There is some anecdotal evidence, however, that provides a ray of encouragement. First, most consultants tell us their deals are often larger, with a number of companies with over 1,000 employees becoming majority employee owned in the last few years. In each case, existing owners simply preferred to sell to an ESOP, even though other buyers would have paid more. At the same time, mature ESOP companies, having paid off their loans, are now looking for acquisitions. Favorable tax laws for such transactions make these mature ESOPs effective competitors in the acquisitions market. Finally, we are seeing an increasing number of companies who want to set up ESOPs not to buy out owners, but just because they like the idea. That could increase the potential audience considerably.

### Stock Options

You just haven't been paying attention if you haven't noticed that the most remarkable employee ownership trend of the last decade is companies giving stock options to everyone. It started with the high-tech sector, where the practice has now become commonplace. In some parts of the country, such as the Bay Area, most employees of high-tech companies get options

(72% of one Palo Alto secretarial placement firms get options, for instance). The trend has spread well beyond high-tech, however. Most of the employees working for the country's largest banks get options, for instance. Starbucks, PepsiCo, Whole Foods, Walgreen's, Wendy's, Merck, Bristol-Myers, and all sorts of other companies have joined the trend. Altogether, surveys suggest about 10% to 15% of all publicly traded companies now give options to most or all employees, while 30% have plans that allow them to do so at a future date (this doesn't mean they will, but it is a sign they are thinking about it).

The reasons for this are not hard to find. Most important is the low unemployment rate, the best thing by far, tax incentives included, that ever happened to employee ownership. Employees want more than a paycheck. They see options as a way to participate in the wealth creation that usually leaves them behind. At the same time, companies are moving towards flatter, more participative structures and want to get people more involved. Options provide an equity stake to reward that behavior. Finally, options have very favorable accounting treatment. Public companies don't show options as a direct cost on their income statements, so it's a good way to increase pay without decreasing apparent earnings (yes, it's smoke and mirrors, but it's not going to change anytime soon).

Are options as good a way to confer ownership as ESOPs? We think so. They have no control rights, but most ESOP participants have little, if any, effective use of voting power. It's true that most employees never actually own shares with options (they exercise their right to buy shares at a bargain price, then turn around and sell the shares), but most broad plans grant options every year, two, or three, so employees always have unexercised options and hence an ongoing equity stake. ESOP participants rarely actually get shares they hold onto either. Unlike ESOPs, however, option holders get the right to get cash out periodically, not just when they leave. Economically, our data indicate option holders and ESOP participants make out about the same in terms of equity value. What options cannot do, of course, is aggregate ownership in a trust so that, collectively, employees can control companies. This is a valuable part of ownership, but one that most employees do not seem to place on their highest priority list for ownership rights. What we do not yet know is whether option companies have ownership cultures as much as ESOP companies do (such as sharing financial information and decision making rights at the job level).

There is every reason to think broad options will continue to grow, and grow rapidly. There appears to be no loosening of the job market, especially in certain industries. Demographers say we could have this happy condition for many years to come. Organizational flattening appears here to stay. Finally, the sectors where broad options have become most ingrained are themselves the fastest growing part of the economy.

### Multinationals

Remarkably, many multinational companies – probably 100 or more – now make all their employees worldwide into owners, usually through options. Bristol Myers Squibb's program has

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already produced \$32,000 in value per participant for its first round of worldwide options (all employees got the same amount regardless of salary or country, a pattern common to many of these plans). Given the enormous complexity and cost of setting up and running these plans, this is quite encouraging. We are finding growing interest in this trend, a trend largely resulting from a desire to create more of an ownership mentality worldwide. How much it will grow is hard to predict, but its eventual impact could be greater than anything that has happened in this field so far.

### The Role of Non-Profits

It would be nice to say that those of us in nonprofit support organizations have made all this happen. It would be humble to say we just watched it occur and did what little we could to push it along. The truth is, of course, in between. The research on employee ownership and corporate performance that showed that ownership only produced results when linked to high-participation management clearly had a dramatic impact on how ESOP companies are run. So did the constant parading of our favorite highly participative companies in front of every audi-

ence we could find – we made these companies into the models. In terms of the number of plans, we helped in two ways. First, the seminars, media work, networking, and the like all increased awareness. Second, the availability of high quality and inexpensive information services made the idea of employee ownership less daunting. Finally, and most insidiously, we all kept saying this was a trend long enough and loud enough (especially to the media, who believed us, by and large) that people started to believe it was a trend. At that point, of course, they could hardly fail to go along; it was the trend, after all.

So what shall we all do next? More of the same, I would say. To be honest, I think all of us – the NCEO, the OEOC, the FED, the ESOP Association, the late, lamented state employee ownership organizations, and many others have done an excellent job. No, we didn't make all this happen by ourselves. But absent our efforts, there would be a lot less employee ownership and it would be a lot less participative.

*Corey Rosen is Executive Director of the National Center for Employee Ownership, a private, nonprofit information and membership organization ([www.nceo.org](http://www.nceo.org)). He will be Ohio ESOP Conference on April 28th.*

## Louis Kelso's Economic Vision for the 21st Century

*Norman G. Kurland and Dawn K. Brohawn*

When America crossed the threshold into the 21st century it led other countries as the most prosperous and powerful nation on the planet. Gazing toward the vast frontier of the global economy, we see a rapidly changing landscape shaped by forces beyond the control of any individual or nation. Space Age technology, global finance, global markets and transnational corporations are impelling us toward an uncertain future.

Certainly we as a nation have benefited from modern technology. It has contributed to our economic success in the world. It has lengthened our lifespans and shrunk to fractions of a second the time it takes to send a message or billions of dollars across the planet. The global economy has brought the American consumer a year-round cornucopia of goods from every cor-

nalization has encouraged the flight of jobs and capital to lower-wage regions of the world. Blue-collar workers and middle management alike have become targets for corporate downsizing. Today, six Ph.D. computer scientists from India can be hired over the internet for the price of a comparable American. Thousands of jobs have been lost to a computer chip. Even in the midst of our prosperity most of us feel powerless to control our own futures.

There is an economic fault line running throughout America and the world which today's economic gurus seem unable to explain or remedy: the ballooning wealth and income gap between a tiny rich elite and multitudes of poor in every country (including the United States), and between developed and developing nations. With global communications, the global economy, and our global environment, we cannot help but feel the tremors inside and outside our borders. These growing economic imbalances promote bloody conflicts, widespread starvation, international crime and corruption, depletion of the planet's non-replenishable resources, unconscionable destruction of the environment and systematic suppression of human potential and life-enhancing technology.

One post-scarcity visionary of the 20th Century, lawyer-economist Louis Kelso, understood the power of technology either to liberate or dehumanize people. Popularly known as the inventor of the employee stock ownership plan (ESOP), Kelso observed that modern capital tools and their phenomenal power to "do more with less" have offered people an escape from scarcity to shared abundance.

As a lawyer Kelso also saw that the design of our

***Kelso argued that the democratization of capital credit is the "social key" to universalizing access to future ownership of productive wealth.***

ner of the world. Competitive forces continue to drive down the price of personal computers, video recorders, and cellular phone systems, putting unimaginably powerful tools of information and communication in the hands of the average citizen. But Americans have also seen harbingers of troubles to come: the disappearance of entire sectors of labor as robots, artificial intelligence, and ordinary office machines enter the work place. Glob-

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"invisible" institutional environment and social tools determine the quality of people's relationship to technology. Such intangible things as our laws and financial systems determine which people will be included or excluded from sharing access to equal economic opportunity, power and capital incomes.

Access to capital ownership, asserted Kelso, is as fundamental a human right as the right to the fruits of one's labor. Kelso argued that the democratization of capital credit is the "social key" to universalizing access to future ownership of productive wealth, so that every person, as an owner, could eventually gain income independence through the profits from one's capital.

### Kelso's Economics of Ownership and Justice

At the heart of what Kelso called "binary economics" is a simple but revolutionary proposition. Kelso stated that people could legitimately create economic value through two (thus *binary*) factors of production:

**Labor** (which Kelso defined as all forms of economic work by people, including manual, intellectual, creative, and entrepreneurial work, and so-called "human capital"), and

**Capital** (defined by Kelso as anything non-human contributing to the production of marketable goods and services, including tools, machines, land, structures, systems, and patents).

Capital, in Kelsonian terms, does not merely "enhance" labor's ability to produce economic goods. (It wasn't Bill Gates' labor that accounted for the increase in his wealth in one year's time from \$50 billion to \$90 billion; his capital would have kept producing even if Bill Gates were in a coma.) According to Kelso, capital (increasingly the source of economic growth) should increasingly become the source of added property incomes for all.

Kelso based his ideal market system on the three basic principles of economic justice:

- (1) **Participation**, the input principle. If both labor and capital are responsible for production, then equality of opportunity demands that the right to property (and access to the means of acquiring and possessing property) in justice must be extended to all.
- (2) **Distribution**, the out-take principle. Property rights require that income be distributed based on what one contributes to production—one's labor, one's capital, or both. *Assuming that capital ownership is spread broadly*, the free and open market under Kelso's system becomes the most democratic and efficient means for determining just prices, just wages and just profits. If both sales revenues and all labor costs are set by globally competitive market forces, then profits, the revenues left over after all labor costs are subtracted, represent a market-based return to capital in the form of profits.

- (3) **Limitation**, the feedback principle (which some Kelsonians call the principle of "**Harmony**"). This principle restores balance between "participation" (input) and "distribution" (out-take) and puts limits on monopolistic accumulations of capital and other abuses of property.

### Kelsonian Macroeconomic Reforms

Democratized access to money, capital credit and credit insurance would become instruments of inclusion, not exclusion, and the means for "procreative" financing of whatever capital the economy needs to move toward prosperous lives for all members of society. Kelso's monetary, tax and other "Capital

*The Capital Homestead Act is a comprehensive legislative program of Kelsonian tax, monetary, and fiscal reforms to make every citizen a stakeholder in the unlimited technological frontier.*

Homesteading" reforms would allow us to finance sustainable growth through techniques that offer more universal access to future ownership (see Norman Kurland's paper on "The Federal Reserve Discount Window," *Journal of Employee Ownership Law and Finance*, Winter 1998).

### Kelsonian Microeconomic Reforms

Value-Based Management (VBM) was designed as a Kelsonian system for building and sustaining an ownership culture within the enterprise. Applying principles of economic justice, the philosophy of servant leadership and Kelsonian financing techniques, VBM will become the prevailing management system for the 21<sup>st</sup> century. VBM systematically anchors capital and builds ownership into successive generations of employees. VBM also reorients the operational and governance systems of today's enterprises from the present top-down, risk-averse and conflict-prone patterns of the wage system, to a system of participatory ownership where risk, rewards and responsibilities are shared

among many co-owners. VBM would enable all workers to be reconciled with the realities of global competition; supplemented by capital incomes, workers' incomes would increasingly shift from automatic wage increases to more equitable sharing of bottom-line profits.



*Louis Kelso, father of ESOPs*

The role of the labor unions will also evolve as unions move from the economics of conflict to the economics of co-ownership. Unions will regain their original role as a democratic society's most important institution for advancing economic justice by organizing all non-owners, not just workers, to help get them their fair share of the growing capital pie.

### A Capital Homestead Act for America

How can we realize Louis Kelso's vision for America and the rest of the world? A 21st century counterpart to Abraham Lincoln's Homestead Act (which was limited to a finite land frontier) will provide every citizen and family with access to future capital and profits in a frontier without boundaries. The Capital Homestead Act is a comprehensive legislative program of Kelsonian tax, monetary, and fiscal reforms to make every citizen a stakeholder in the unlimited technological frontier. Facilitated by capital credit and loan default insurance available under "Capital Homesteading" reforms, each citizen will begin to accumulate dividend-yielding shares in (1) the company he works for through an ESOP, (2) the companies he regularly buys from through consumer stock ownership plans (CSOP), (3) a community investment corporation (CIC) to link him to the profits from local land planning and development, and (4) a variety of blue-chip growth companies he invests in through an individual stock ownership plan (ISOP).

### A Glimpse of the Future

Envisioning a Kelsonian future where every American has a viable capital ownership stake in a growing economy, we predict:

- America's moral leadership will be restored as we set an example for the rest of the world on how to achieve genuine economic democracy and justice for all.
- Wealth, economic power and income gaps between the rich and poor will shrink, without present owners being deprived of their property rights.
- Sharing profits and control of technology, all people will become empowered, not victimized, by technological change.
- Market gluts and "overproduction" will be eliminated, as overall supply is matched by the simultaneous creation of mass purchasing power.
- Enthusiastic and productive worker-owners will produce goods and services of the highest quality at low costs within corporations operating with more democratic accountability, efficiency and equity.
- Politicians will be more accountable to more economically empowered and independent citizens, who will be less dependent economically on government welfare,

subsidies and income redistribution.

- Personal, family and community life will strengthen as more people gain greater control over their economic destinies.
- The environment will become healthier as "Capital Homesteading" enables Americans to fund green technologies and non-polluting, "hydrogen age" energy sources that in the past lacked financing for their commercialization.
- The quality of education and work will radically improve, as technology reduces the need for economic toil, and as more people gain the time and means to engage in lifetime learning and non-paid "leisure work", enabling them to work creatively for the common good and the advance of civilization.
- A flourishing and peaceful world society will be built upon the decentralization of economic power, and, as in the first American Revolution, the power of government will again subordinate itself to the sovereignty of each human person.

In the 20<sup>th</sup> century, many lived lives of quiet desperation, struggling from paycheck-to-paycheck, or from hand-to-mouth, with no ownership stake in society's wealth-producing assets. Most 20<sup>th</sup> century Americans were limited to a choice between the wage-systems of capitalism and the wage-systems of socialism. Many have lost hope that they or their descendants will ever share in the American Dream.

Just as Lincoln provided opportunities for propertyless people in 19<sup>th</sup> century America to gain a piece of the world's shrinking land frontier, 21<sup>st</sup> century Americans will gain their ownership share in the limitless technological growth frontier. In the 21<sup>st</sup> century, Americans will be given a new choice, a "third way" opened up by Louis Kelso, an alternative model of development that transcends both Wall Street capitalism and all forms of socialism. Choosing this road will lead America back to its revolutionary roots to a more participatory, unified and empowering "Second American Revolution" and a more just, free and efficient market economy. America will then again serve as "the last best hope of mankind." □

*For more information on Louis Kelso's economic concepts and applications, and on the specific reforms of the Capital Homestead Act, visit CESJ's website at [www.cesj.org](http://www.cesj.org) or contact the Center for Economic and Social Justice at P.O. Box 40711, Washington, D.C. 20016, Tel (703) 243-5155, Fax (703) 243-5935, or E-mail: [thirdway@cesj.org](mailto:thirdway@cesj.org).*

*Norm Kurland is President of the Center for Economic and Social Justice (CESJ) and Managing Director of Equity Expansion International (EEI). Dawn K. Brohawn is CESJ's Director of Communications and EEI's Director of Value-Based Management Services.*

## Repurchase Obligation Challenges and Solutions for Sub-S ESOPs

*Coming up with cash to pay out ESOP participants is a major worry for most ESOPs and both short-term and long-term repurchase planning may become more complicated for ESOP firms that have converted to Sub-S corporations. At the Network's ESOP Administration Forum last July two Ohio ESOP firms, both recent converts to Sub-S status, discussed their issues and solutions.*

### Managing a Short-Term ESOP Repurchase Shortfall

Tom Ochs

**P**rior to 1999, Ohio Valley Supply Company's ESOP Trust balance and the yearly tax-deductible cash contributions were always sufficient to meet our repurchase obligation. However, in 1999 it appeared that the repurchase obligation for that year would be greater than the estimated available funds. US tax law changes, a restructuring of our business, and the design of our ESOP plan all played a role in creating the problem.

When the former president of OVS, a Cincinnati-based distributor of DuPont Corian, and other building materials, retired in 1985, he expressed the wish that the company be owned by the employees. His wish became reality when we purchased his shares with funds from a profit sharing plan and an ESOP loan.

***Every ESOP will experience a time when payouts will be greater than the plan can support.***

From the beginning, we were concerned with repurchase obligation, because our plan requires lump sum payouts, and each year contributions nearing 25% of eligible payroll were made to the ESOP.

In 1996 our company was restructured and profits increased, so in 1998 we changed to an S corporation. In 1999 we faced the payout of several terminated employees with substantial ESOP account balances. As a C Corp, we contributed a higher percentage to the ESOP than allowed as an S Corp. This, along with the recent growth in profitability, means repurchase problems. How do we finance this potential shortfall?

I prepared a list of available options along with some advantages and disadvantages and circulated this list to our ESOP attorney and third party administrator for input. Then I presented the list to our Board of Directors.

#### **I found seven ways to finance the shortfall:**

**Option 1: Available funds in ESOP trust.** Use the balance of an account that will not be paid out until the year 2000.

**Option 2: Make a non-deductible contribution to the ESOP.** One disadvantage is paying the 10% excise tax; but you also offset the non-deductible part of the contribution against your next year's ESOP contribution.

**Option 3: Make an AAA distribution to the plan (An S**

corporation's equivalent of a C corporation's non-deductible dividend). The advantage is the distribution does not count against the ESOP contribution. The disadvantages are: 1) the distribution is based on number of shares, rewarding older employees more than our newer employees, 2) it drives up the values of participants' accounts and reduces the value of the company; and 3) if the distribution is used to pay down the loan it decreases the next year's tax-deductible net cash contribution.

**Option 4: Make a deductible loan from OVS to the ESOP.** The advantages are the loan does not add to ESOP account balances and loan principal and interest could be spread over more than one year. The disadvantages include initial cost and sufficiency of ESOP contributions in future years to cover repurchase obligations and the loan.

**Option 5: Increase eligible payroll through bonus payouts to employees.** This method went against the company policy of paying bonuses based on our financial performance.

**Option 6: Have the company redeem shares and place them in a treasury.** One advantage is that ESOP participants can rollover their payout to an IRA. Disadvantages are that the company uses after tax dollars to purchase shares and that newer employees miss out on a chance to get additional shares until the shares are recontributed to the plan at some future date.

**Option 7: Amend the plan for multiple year payouts.** Though the most obvious solution, all past terminees were paid out in the year they were due and this set a precedent. This option was not well-received by the board. The reasoning was, and still is, that because terminees have no control over the company's future they should also have no personal finance exposure.

#### **Deciding on the best option**

Normally, our current tax year's contribution is made the following year, but to meet our 1999 payouts and generate interest income, the 1998 and 1999 ESOP contributions were made in the respective year. If the increase in stock value resulted in having the payout greater than the funds available, then the board approved an AAA distribution. The good news was our stock increased only slightly, so the AAA distribution was not required.

As time passes, laws change and businesses restructure. Just about every ESOP will experience a time when payouts will be greater than the plan can support. Be prepared for this and write your plan to allow for multi-year payouts.

*Tom Ochs is Chief Executive Officer of Ohio Valley Supply, a 100% employee-owned company in Cincinnati.*

### Looking at the Long-term:

#### Setting aside current Sub-S profits for future ESOP repurchase needs?

**T**he Mosser Group, a Fremont-based firm that offers general contractor, design/build, masonry, and highway/bridge services, operates within the highly cyclical construction industry. The firm, which has a long-standing tradition of sharing profits, saw a boost in profits resulting from their recent conversion to a Sub-S ESOP. This has caused them to look for ways to contribute cash or stock above the 15% limit and earmark the profits from tax savings in upcycle years toward meeting repurchase obligations during downcycle periods.

Skip Carter, president of Mosser Construction, explained that the firm worked with ESOP attorney Carl Grassi of McDonald, Hopkins, Burke & Haber Co., L.P.A. to address these issues. They decided to redesign Mosser's existing KSOP to incorporate an entirely new plan structure. First, the 401(k) portion of the old KSOP was split out into its own separate plan. Second, the ESOP portion of the old KSOP was restructured into two components — a stock-bonus-ESOP and a money-purchase plan-ESOP.

The 401(k) plan and the stock-bonus-ESOP permit the company to make discretionary contributions. These two plans share

a 15% of compensation deduction limit. The money-purchase plan-ESOP requires a non-discretionary company contribution. The level of contribution is fixed as a percentage of compensation. Because of the overall 25% limit, the money-purchase plan-ESOP contribution could be fixed anywhere from 1% to 10% of compensation.

In Mosser's situation, the 401(k) plan receives employee contributions. The company also makes a 2% matching contribution in stock which is contributed into the stock bonus ESOP. The stock-bonus-ESOP also holds employer stock rollovers from the profit sharing contributions made by the company. The money-purchase-ESOP plan receives a set annual percentage of compensation as an employer contribution in cash or stock.

Through the use of these three interrelated plan vehicles, the company has found a way to share additional profits with employees, in the form of cash or stock, beyond the limits normally imposed on Sub-S ESOP plans. □

*Technical information on The Mosser Group plan provided by Carl Grassi, a shareholder and Department Manager of the Tax and Employee Benefits Department at McDonald, Hopkins, Burke & Haber Co., L.P.A.*

## Capital Ownership Group Goes Online

**I**n the last issue of *Owners At Work* (Summer 1999), we announced that the Capital Ownership Group (COG) had been awarded funding from the Ford Foundation to establish a Virtual Think Tank that would allow people from all over the world to communicate electronically in order to develop and implement strategies for broadened ownership and to meet the challenges presented by the current state of concentrated global ownership.

Well, the COG Virtual Think Tank has been up and running since last summer. All five of the discussion groups, originally envisioned, are working and we have added several more. There are 212 participants in the network and we are always busy recruiting. All of these groups' discussions are on the website and can be easily accessed.

We have a growing library of books and articles that can be found on the website from a variety of authors. We also have established website "links" to 32 other web resources on broadening ownership. Through these links to other websites, there is access to a substantial amount of the available literature on employee ownership.

Looking ahead, COG is organizing a meeting of participants to be held April 14-15, 2000 in Chicago. As of now, participants from Belgium, Canada, India, Mexico, the Netherlands and the U.S. are expected to attend.

We invite the readers of *Owners at Work* to visit the Virtual Think Tank at <http://cog.kent.edu>. From your computer anywhere in the world, you can view the discussions or join them and contribute your own ideas on how to promote broadened

ownership of capital and reduce inequality of income and wealth distribution. You can also send papers or articles in electronic form to be added to the COG library. **Check us out!** □

### What is COG?

The Capital Ownership Group is an informal association of people from 14 countries on 6 continents whose mission is to:

- create a coalition that promotes broadened ownership of productive capital;
- reduce inequality of income and wealth; increase sustainable economic growth;
- expand opportunities for people to realize their productive and creative potential;
- stabilize local communities by improving living standards; *and*
- enhance the quality of life for all.

**please join us at  
[cog.kent.edu](http://cog.kent.edu)**

## ***Ohio's Employee-Owned Network 2000 Program Schedule***

### **Leading & Managing Owners:**

#### ***Linking Involvement to the Bottom Line***

**February 10 & 11, April 6, Kent, Ohio**

Designed for those in front-line leadership with increasing responsibilities to encourage employee involvement towards improving the bottom line. Explore the basics of employee empowerment; and ways to link involvement to business performance.

### **Teaching Financials to Employee Owners:**

#### ***A Financial Train-the-Trainer Workshop***

**February 17 & 18, Kent, Ohio**

Prepare a set of trainers at your company to teach others a step-by-step introductory course on understanding financial information.

### **CEO Roundtable**

**April 27, Akron/Fairlawn, Ohio**

Open agenda on timely topics selected by participants.

### **Annual Ohio Employee Ownership Conference**

**April 27 & 28, Akron/Fairlawn, OH**

#### ***Beyond the ABCs: Understanding Ownership***

Explore important concepts in owning a business and ways to communicate and educate others. For both new and mature ESOPs.

### **ESOP Summer Institute**

**June 12-15, KSU**

Sessions for ESOP committees, ESOP administrators, and in-house trustees include:

- ***ESOP Communication Committee Training***  
Designed for those responsible for ESOP communication and education to promote an ownership culture.
- ***Understanding the Numbers***  
Participants learn the basics of financial statement terms through exploring a simplified ESOP company's operations.
- ***ESOP Administration and Trustee Training***  
Fiduciary, oversight, and administration roles in ESOPs, voting, and valuation.
- ***Putting the Numbers to Work*** Participants explore key performance indicators and basic financial analysis tools.

### **ESOP Administration Forum:**

#### ***ESOP Administration Update***

**July 20, NE Ohio**

Meeting IRS regulations for ESOPs, a "clean" plan, trustee role in ESOP valuation, and appraisal factors are among the topics to be discussed.

### **ESOP Administration Forum:**

#### ***Diversification and Repurchase Planning***

**August 17, Dayton, Ohio**

Explore planning, funding and payout options for managing ESOP diversification and distribution.

### **ESOP Communication Forum**

**September 13, SW Ohio**

Showcase ESOP communication committees in promoting ESOP understanding and rejuvenating ESOP participation. Roundtable format.

### **CEO & Senior Manager Retreat**

**September 21-22, Mohican Resort**

Interactive presentations and informal sessions on current issues and pre-selected topics of common concern.

### **Employee-Owner Leadership Development Retreat**

**October 26-28, Atwood Resort**

Sessions for non-managerial employee owners on the basics of ESOPs, business financials, and team-building.

### **CEO Roundtable**

#### ***HR Representatives Roundtable***

**Nov. 1, Dayton, Ohio/ Nov. 3, Kent, Ohio**

Open agenda on timely topics selected by participants.

### **Advanced ESOP Issues Training**

**December 7, Kent, Ohio**

Designed for non-managerial directors, trustees, and administration committee members with focus on fiduciary roles and responsibilities.

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***For more information or to register to  
participate in these Network events call  
Karen Thomas at  
330-672-3028***

# Building on a Quarter Century of ESOPs



Corey Rosen, Executive Director, National Center for Employee Ownership, will speak on broadening capital ownership nationally and his vision of what the future holds.

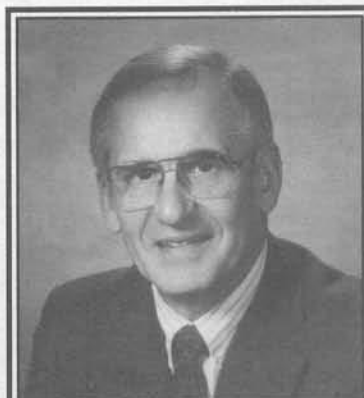


**BLUE RIDGE**  
PAPER PRODUCTS INC.

Kenny Sutton, Blue Ridge Paper Products, will speak on developing a state of the art employee participation program at Blue Ridge. Blue Ridge Paper Products is the largest employee-initiated buyout since United Airlines.

*16 planned conference workshop topics include . . .*

- ♦ Succession planning of ownership and management
- ♦ Diversification & repurchase liability
- ♦ Converting to a Subchapter S ESOP
- ♦ Using an ESOP to avert shutdown
- ♦ Broad based stock options
- ♦ Employee participation
- ♦ Ownership training
- ♦ ABC's of ESOPs
- ♦ Trustee Issues
- ♦ *and much more . . .*



**Lynn Williams**  
*Retired U.S.W.A.  
International  
President*

**Friday, April 28, 2000**  
**Akron / Fairlawn Hilton**  
Fairlawn, Ohio (off I-77)

**Mark Your Calendar**

## Ohio Employee Ownership Conference

\$30.00 Network Members (before 4/14/00)  
\$40.00 non-Network (before 4/14/00)

\$60.00 (between 4/15/00 - 4/26/00)  
\$90.00 at the door

Name: \_\_\_\_\_

Company: \_\_\_\_\_

Address: \_\_\_\_\_

Phone: \_\_\_\_\_ Fax: \_\_\_\_\_

**Ohio Employee Ownership Center**

309 Franklin Hall • Kent State University • Kent, Ohio 44242

330-672-3028 (phone) • 330-672-4063 (fax)

**OEOC**



## How Have Ohio Employe

**O**ver the years, *Owners At Work* has written about many employee-owned companies. More often than not, the occasion is their going employee owned. But employee ownership is not the end of the road: it's just the beginning. How have they fared?

Unlike Bliss (see page 1) which went into liquidation during the steel crisis of 1998-99, most have done well. As a matter of fact, of the 51 firms which the OEOC has assisted in establishing ESOPs since 1987, only 2 have failed -- although more than a dozen of them were bought to avert shutdown. Employees have sold 5 of them and 1 has terminated its ESOP. Forty-three remain partly or wholly employee owned. Here's an update on four Ohio firms we covered in past issues of *Owners At Work*:

### Producers Services

When Dan Pottmeyer called the OEOC in June 1994, he was a few days into a frantic effort to rescue Producers Services, a Zanesville, Ohio, oil field service company, from shut-down. With the decline in oil and gas drilling in the state over the previous decade, the company's CEO and largest stockholder had put its surplus equipment up for sale and had received an offer from a Canadian company that was too good to refuse. The trouble was, it was for all the company's equipment and the Canadians didn't want to run the company in Zanesville; they wanted to shut it and ship all the equipment to China.

While it was an attractive way for the shareholders to exit profitably from a marginal business, the employees were less pleased. Their protests at the May 23 shareholder meeting got them 60 days to raise

loan papers were finally signed and employees acquired 85% of the company. The Producers Services buyout was the subject of our Winter 1994/5 cover story.



Some of Producer Services' new owners: Kelly Hartman, Debbie Anderson, Dan Pottmeyer, Jim Rose & John Paul with a hydraulic fracturing pumping unit.

Since then, Producers Services has done well under employee ownership. While its first year was grim, the last four years have been much better. Even during its strapped first year of employee ownership, Producers Services sought to reduce the cyclical of its employees jobs and regular layoffs by instituting the policy of rebuilding its equipment in-house during the slow winter season, instead of outsourcing repairs. That policy has paid off by providing more work for employee owners and saving money as well.

Producers Services paid off its initial purchase debt in 1999 and bought out the remaining outside shareholders. Employment is up from 14 at the time of the buyout to 18 today. The average employee, who rolled about \$20,000 in profit sharing money into the ESOP in 1994, now

***"Employee ownership allows us to do a lot of things well. If you talk to our customers, I think they'll tell you that it shows."***

*Dan Pottmeyer, Producer Services*

about \$2 million to match the Canadians' offer.

"Ever heard of anyone doing an ESOP buyout in 60 days?" Pottmeyer asked. "That will put you in the Guinness Book of Records," we replied, "but we have frequently seen deadlines get postponed when you are making good progress."

Over the next weeks, Pottmeyer and OEOC staff kept the phone lines buzzing looking for investors, seeking lower interest loans with state support, and working to restructure the deal to make it possible to keep some of the selling shareholders in and to reduce the tax liability for those who were getting out. On September 2, just 100 days after the May shareholder meeting,



In 1995, Teamster shop steward Willie Mays drove his regular route while also steering the new employee-owned company as its president.

## Owned Companies Fared?

owns ESOP stock worth about \$100,000.

"Our ESOP helped us save our company," said Pottmeyer. "Employee ownership allows us to do a lot of things well. If you talk to our customers, I think they'll tell you that it shows."

### Shortway

Employee ownership put IBT Local 20 Chief Shop Steward, Willie Mays back in the driver's seat in 1995 when the 25 employees bought Shortway, US Transportation Service's Toledo-based charter bus company to avert shutdown. Mays became the company's first president. (*Owners At Work*, Winter 1995/96)

Today, Shortway President Ed Gilroy says that overall, employee ownership has worked. "We increased our fleet and employment. Morale is good, and the outlook for the future is positive."

### Fastener Industries

In 1980, employees led by CFO Rich Biernacki bought Fastener Industries—the Ohio Nut and Bolt, Buckeye, and Modern Fastener facilities on Cleveland's West Side—from the Whelan

***Fastener is a national model for what employee ownership can achieve. It is one of the most productive and profitable companies in its industry.***

family. It's the oldest 100% ESOP company in the state, and it was featured in *Owners at Work's* Spring 1990 and Spring 1992 issues.

Today, Fastener is a national model for what employee ownership can achieve. It is one of the most productive and profitable companies in its industry.

It combines the best of modern corporate and employee ownership practices. Organizationally, the company is virtually flat: machine operators report directly to the plant manager. Quality is built into the production process. Hourly production employees work a 35 hour week. There is a full tuition reimbursement program for further education (up to \$2,500 annually), and Fastener has sent the overwhelming majority of employees through one or more of the Ohio Network training programs. Fastener promotes virtually entirely from within, creating career ladders for employee owners who use their educational opportunities. The five-member board of directors is elected every second year by employee shareholders,

and anyone who can get ten signatures from Fastener employee owners on a nominating petition is eligible to run.

Fastener has bought two other companies -- Joseph Industries in Streetsboro and Brainard Rivet in Girard -- and included their employees in the Fastener ESOP.

It has paid off for employee owners. The company's profit sharing bonus in recent years has typically amounted to a month's pay, and dividends on ESOP stock

for machine operators who have been at Fastener since the beginning of the ESOP approximate another 3 months pay. Despite these heavy payouts, Fastener stock has appreciated an average of 14½ % annually since 1980. The consequence is that machine operators who were there at the start of the ESOP are retiring 20 years later with ESOP stock accounts worth roughly \$350,000.

Making fasteners—nuts, bolts, levelers, weld fasteners—is a tough, grubby and highly competitive global industry. A lot of the jobs in this industry—including many that used to be in Cleveland—have gone overseas, chasing ever lower wages. Fastener Industries has stayed on the West Side, reinvested, and prospered. It's prospered not only because it's been well managed. It's prospered because the men and women who work there own the place, know they own the place, and know that they are working for themselves.



Rich Biernacki addressing the 1997 Ohio Employee Ownership Conference



Billy Robinson celebrates with other Quincy employee-owners by burning the mortgage at the company's 1995 annual shareholders meeting.

### Quincy Castings

Quincy Castings, bought by the employees from Warren Tool in 1990, is a grey and ductile iron foundry in Quincy (population 687), Ohio. We wrote about it in Spring 1992, Spring 1993, and Summer 1995 issues of *Owners at Work*.

Quincy Castings was a marginal operation for Warren, but it has flourished under employee ownership. Quincy has focused on involving employees, building trust, opening communica-

tions, and redesigning supervision to fit employee owners. It has undertaken two plant expansions. Employment has grown from 80 in 1990 to 100 in 1999. □

## Employee Ownership in the Airlines

Mark Miller

Nineteen ninety-nine may be the year history started repeating itself in airline employee ownership. Pilots at American Airlines began debating in the fall whether to lead a buyout of AMR Corp., the world's second-largest carrier. Voting in Dallas/Fort Worth, Miami and Los Angeles, small groups of pilots, members of the independent Allied Pilots Association, overwhelmingly endorsed resolutions to proceed with a study. Although members who voted 102-10, 37-3 and 41-1 constitute less than 2 percent of the union's membership of 9,800, the circumstances of their decision, the prevalence of employee ownership in the airlines, and current industry conditions all point to even odds that the initial stirring will culminate in eventual employee control at American.

The APA buyout votes followed by about eight months a pilots' sick-out over seniority issues in the integration to American of pilots at Reno Air, which American acquired in late 1998, a job action that some observers saw as avoidable if American management had been better at communicating with its pilots. The sick-out cost the carrier an estimated \$225 million in lost fares during high-travel Presidents' Week and resulted in a federal fine of \$45 million slapped against the APA.

In this respect, events at American echoed those at United Airlines in the 1980s. Pilots at United made their first attempt at a buyout in mid-1987 while still smarting from a 20-day strike two years before over introducing two-tier pay scales (to better compete with American). United's pilots, members of the Air Line Pilots Association, succeeded. By June 1994, on their fourth try and in league with the International Association of Machinists and Aerospace Workers, they made United the only majority-employee-owned airline to date. (United's third largest union, the Association of Flight Attendants, opted out of the ESOP, which includes salaried employees.)

Today, the pilots and the Machinists each have seats on the board of directors of United's parent company, UAL Corp., as do salaried employees. Through supermajority voting provisions the two unions have veto authority over major transactions, their directors sit on the board's most important committees, and they effectively select the company's top executives. At the moment UAL is the world's largest airline and in December was the only U.S. carrier to have a "bullish" Standard & Poor's technical rating. Its stock, which quadrupled in value in the years after the 1994 buyout, took a free fall in January 2000 because of projected fuel price hikes and pay raises for employees. This is an industry-wide phenomenon, but most acutely felt at UAL.

The two colossi of an industry that rewards enormous scale, United and American have swapped No. 1 and No. 2 rank a couple of times in the last few decades. United last surrendered the top spot not long after its 1985 strike but overtook American in market share in 1996.

By the time United became the first majority employee-owned carrier in 1994, minority employee ownership had become common in the airlines. At least 11 had used one kind or another. ESOPs at Trans World Airlines, Northwest Airlines,

and Hawaiian Airlines were instituted in 1993 as company-savers, all three bringing significant union representation to the boards of directors. ESOPs in the 1980s were critical to survival strategies at Eastern, Pan Am, Western, Republic and Pacific Southwest Airlines; each company saved tens of thousands of jobs while gaining invaluable knowledge about employee participation. The startups People Express (1981-86) and Kiwi International Airlines (1992-95), badly managed and short-lived though they were, likewise contributed useful lessons; both non-union carriers used non-ESOP employee-investment schemes to get off the ground. Southwest Airlines, today's fastest-growing major airline, is partially employee-owned through stock options for pilots, and through a condition of company-wide profit-sharing that a quarter of the money go to buy company stock. There are millionaires and near-millionaires among rank-and-file employees of the highly unionized airline as a result, but no employee representatives on Southwest's board.

Employee ownership has been a natural for the major airlines since the Airline Deregulation Act of 1978 ended their status as a government-protected cartel and threw them into fierce competition with each other and a flock of startups. In the last three

***Motivated workers make a big difference in on-time flights, proper baggage handling, clean cabins, courteous check-ins & in-flight hospitality.***

years of the crisis, through 1993, nine of the 10 top carriers (Southwest proving the phenomenal exception) together lost more than \$12 billion. Beginning in the mid-1990s all but one of the top 10 (TWA) started generating cash.

1999 was the eighth consecutive growth year for air travel in the United States. The record 600 billion revenue passenger miles (RPMs) logged by the majors reflected a 2.5 percent gain over 1998. There is evidence, however, that the industry is heading toward change which — if nowhere near as jarring as that caused by deregulation in 1978 — may bring impetus for another surge of employee ownership.

A routine drama that played out one week last fall is symptomatic of a tightening market. On Nov. 22, American Airlines announced a 3 percent fare increase. Continental, Delta, and United quickly followed. But the refusal of Northwest, TWA, US Airways, Southwest, and America West Airlines to do so was decisive. Delta rescinded its 3 percent hike on Nov. 25, and the next day American, United, and Continental backed down.

The boost had been reasonable. In a strong overall economy, airline profits were expected to be down by a quarter for 1999 because of higher fuel costs, seemingly a standard case for passing on some of the costs to consumers. Fuel is the second highest expense for the major airlines after labor, itself a rising expense. While announced airline fare increases had totaled about 15 percent in 1999, industry analysts said, passengers were actually paying nearly 1 percent *less* than in 1998 because they were

landing better deals with the help of the Internet. Even traditionally price-insensitive business travelers were flying for less as corporate travel managers became more bargain-conscious. Nearly three-quarters of them surveyed in early 1999 said they expected reduced travel budgets. This is significant because business customers account for 50 percent of airline revenues but only 40 percent of passengers. The major airlines' thin profit margins were becoming thinner. Price competition and stepped-up strategic maneuvering are two consequences.

Union power and industry volatility make the major airlines well suited to employee ownership, and vice versa. International labor unions not only remain dominant in the major airlines but have gained strength since the 1980s when they first came to their employers' rescue through investment bargaining. They have a firmer footing than their counterparts in other industries because they are not governed by the National Labor Relations Act but rather the Railway Labor Act. The NLRA permits companies to shift work and jobs to non-unionized plants elsewhere. Under the RLA airlines unions serve their members in company-wide bargaining units.

A particular incentive for unionized pilots to seek control is that their jobs are industry-specific and their pay and pecking-order rank in one airline is based on seniority; they have more to lose than other employee groups if their employer merges or is acquired by another airline or is forced out of business.

Another reason for employee ownership in this highly unionized industry is that most of the majors, as Peter Cappelli ob-

served in his book *Airline Labor Relations in the Global Era*, "are now too big to take a strike. The consolidated carriers simply have too many jobs to fill, especially for pilots and mechanics, in too short a time to use permanent replacements." Airlines have reason to want their unionized employees' interests aligned with stockholders'.

And because (as Cappelli notes) something resembling the pattern bargaining best known in the automobile industry has come to the increasingly competitive airlines and unions can demand higher settlements, it makes sense for them and for management to consider compensation in stock as well as wages. The larger unions find themselves in a position to couple this equity piece with boardroom clout.

The importance of customer satisfaction in a service business like the airlines makes employee-stockholder alignment of interests key. Motivated workers make a big difference in on-time flights, proper baggage handling, clean cabins, courteous check-ins, and in-flight hospitality. Southwest Airlines has exemplified this by winning the Department of Transportation's "Triple Crown" award — for best on-time performance, fewest customer complaints and lowest number of mishandled bags — every year since the award was established in 1987. And the increased employee and equipment productivity likely to result from this alignment are particularly relevant to airline companies that need to control costs to remain competitive.

Employee ownership doesn't guarantee harmony and trust and marketplace feats. Northwest Airlines was set back by a 15-



*A few of the over 60,000 employee owners at United Airlines*

day pilots strike in 1998, and after prolonged negotiations its Teamster-represented flight attendants rejected a contract in 1999 which at this writing is still unresolved. Northwest management seems never to miss a chance to demonstrate its lack of rapport with its union groups. TWA, which would be out of business without its ESOP and its employees' participation and which (by contrast with Northwest) has a management that repeatedly showers recognition on them, was the recipient of a mostly failing Machinists' "report card" in December 1998 that found little to recommend about the carrier's top two executives.

An example of union efforts to keep TWA flying is an unprecedented two-day meeting of its ALPA and Machinist leaders in Rome last November with their counterparts representing TWA employees in France, Spain and Italy on the airline's international operation and ways to increase revenue while reducing costs. ALPA leader Tom Brown termed the conference "the first time in my 30 years [at TWA] that the domestic employee groups teamed with our international co-workers to address the issues of competition." William O'Driscoll, president of IAM District Lodge 142, said the information garnered would "assist the TWA board of directors in making the right decision about the international operation." It is, of course, possible that discussions included the merits of another equity infusion into TWA.

Brown, head of the ALPA Master Executive Council at the airline, says the perspective he enjoys as a member of the board of directors, is much more valuable than the pilots' 4 percent of

stock, which has been declining in value. At UAL, Captain Mike Glawe, who just stepped down as MEC chairman and a board member, sees the value of United's industry-leading ESOP as twofold: "work together with trust and harmony, and fairly divide the wealth."

Five AFL-CIO unions have built up more than a century of experience with ESOPs in the airlines in less than two decades. ALPA has represented its members at eight ESOP airlines beginning with Pan Am in 1981. The Machinists are next with experience at six, followed by the Teamsters with five, the Transport Workers with four, and the Flight Attendants with three. (The Airline Mechanics Fraternal Association, a craft union founded in 1962, opposes ESOPs as irrelevant or counter to their members' interests.) As is the case in hundreds of union experiences with employee ownership in other industries, those in the airlines have provided openings for new roles in business as well as opportunities for labor-management and inter-union cooperation.

A final thought, perhaps not too Polyannaish, is that falling value of airline stocks is not a bad thing for employee ownership in this industry with a solid future. It makes large blocks of stock that much more affordable to would-be employee owners. □

*Mark Miller is a student of employee ownership and organized labor and received his MBA last year from the Isenberg School of Management at the University of Massachusetts.*

## Friend of the Center

As a reader of *Owners At Work*, you know the Center's commitment to retaining jobs, anchoring capital in our communities, and educating employee owners. Whether we are working with retiring owners, employee buyout groups or existing employee-owned companies, the OEOC staff is truly dedicated to serving others.

Over the last 12 years, we've helped 11,000 workers buy their companies. In 1999 we were pleased to assist Champion Paper employees in establishing Blue Ridge Paper, retaining 150 jobs in Olmsted Falls, Ohio, that otherwise might have been lost. We helped Gledhill Road Equipment's owner arrange an ownership transition to his employees, rather than selling to an out-of-state buyer who would have shut the Galion, Ohio, facility. At least four other companies we worked with have implemented ESOPs as part of ownership succession strategies.

Employee ownership also involves education. In 1999, we ran 13 different training programs for the 60 companies of Ohio's Employee-Owned Network. Our annual conference attracted more than 325 participants — the largest regional employee-ownership meeting in the country. As part of our focus on improving workplace health and safety, we wrote and published a "best practices" manual for safety in employee-owned companies.

With economic globalization, we need to determine how to use employee ownership to avert an international "race to the bottom" of the lowest wages, benefits, and environmental standards. This last year, we worked in Belarus, Egypt, and Russia to support the development of employee ownership. Through the Capital Ownership Group, we obtained funding from the Ford Foundation to build an international electronic "think tank" to develop policy proposals to broaden ownership of productive assets globally.

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 again to grass-roots support from the folks who know us on a more personal level.

We hope you will become a "Friend of the Center" by making a **tax-deductible donation** to help the OEOC continue providing quality services. Your contribution will help the Center to continue serving the community.

Kindest regards,

John Logue  
OEOC Director

Checks should be made payable to:

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Ohio Employee Ownership Center  
309 Franklin Hall  
Kent State University  
Kent, Ohio 44242

**OEOC**  
Ohio Employee Ownership Center

## New Resources for Employee Ownership

**Jeremy Best, *Owning Your Own Job: Employee Ownership in Action* (London: Partnership Research, 1999). 88 pp., \$20. Available from Partnership Research, Abford House, 15 Wilton Road, London SW1V 1LT, England. Telephone 0171-821-9298; Fax 0171 828-5013.**

**T**his anthology of case studies of British and American employee-owned companies will be of interest to American readers because it provides a first-hand look into at several successful British employee-owned companies with very different ownership structures than those we are familiar with. They do things differently on the other side of the pond!

Several of the firms Best describes have created a system for permanent employee ownership which mix collective and individual rights in very different ways than our ESOPs. From an American perspective, they focus more on collective, permanent employee ownership and less on individual ownership rights than we expect.

Consider the John Lewis Partnership. Since 1929, it has been collectively owned and controlled by employees without any form of individual share ownership. Current employees own the fruits of capital which they get through profitsharing, but they don't have individual ownership of the capital itself. It is held in trust for future as well as current employees. In effect the John Lewis Partnership is owned in perpetuity by the employees, with current employees always enjoying the benefits of the last generation's investments.

While British "common ownership" may strike American individualists as a peculiar British eccentricity, it is compatible with good performance in highly competitive markets. Though it sells food, John Lewis is not your neighborhood macrobiotic health food store. Last year the John Lewis Partnership earned over \$400 million on more than \$5 billion in sales in the extremely competitive department store and grocery store businesses. Its 45,000 employee partners derive their financial advantage of common ownership through cash profitsharing which varies with the profitability of the company. In the 1990s, profitsharing has ranged from a low of 8% in 1993 to a high of 22% of wages in 1997 and 1998. Capital reinvestment is collectively owned and cannot be withdrawn by the individual employee owner at retirement. It remains in the company to benefit the next generation of employee owners. The company has prospered under this system of ownership for seventy years, so it is hardly a flash in the pan.

The structure of English employee-owned firms often reflect the personal choices of their founders who seem to be a splendidly eccentric group. Jeremy Best makes this clear in the case of Spendan Lewis, who converted his family firm into the John Lewis Partnership. Or consider the Swiss immigrant, pacifist and converted Quaker Ernest Bader and the Scott Bader Company (which is not profiled in this book). Scott Bader, an English multinational in the synthetic resins busi-

ness, is owned in the same way as John Lewis, but its company "constitution" earmarks its profits so that at least 60% are reinvested in the business, up to 20% paid out in employee-owner profitsharing and an amount equal to profitsharing is contributed to community or charitable purposes, enshrining Ernest Bader's personal altruism in the company's continuing practice. Scott Bader, which has been employee-owned since 1951, now employs 600 in operations in France, Dubai, South Africa and the United States as well as in England and recently opened American sales operations in Hudson, Ohio.

Controlling owner Philip Baxendale in 1983 created a hybrid in the Baxi Partnership, one of Britain's leading producers of heating systems, that combines "common ownership" and individual ownership. Majority ownership of the company is in the hands of a common ownership trust without individual employees ownership rights, like those at John Lewis and Scott Bader. A minority interest in the company, however, is individually owned by the employees through profitsharing and through an employee savings scheme. An employee trust makes a market for the shares, and employees have to sell shares back to the trust when they leave the company, although they can often do so earlier.

Reading the British case studies led me to reflect on the implications of the British "common ownership" trusts. Companies owned in this fashion are spared the problems with repurchase liability that ESOPs face. On the other hand, individual employee owners do not benefit from the growth of value of their company, except through growing profit sharing. They keep capital in the firm for reinvestment and growth, and ownership remains permanently in employee hands.

That has considerable attraction as public policy. Short term employee ownership in which employees buy a company, pay off the loan with tax free dollars, and then sell for a profit to a conventional company means that the large public tax subsidy that is supposed to lead to future public benefit simply gets pocketed by the selling employees -- and the benefit to the community doesn't occur.

Consider the case of Textileather in Toledo which the employees sold to Canadian General Tower (see "When Employee Owners Sell," *Owners at Work*, v. 7, no. 2 [Winter 1995/96], pp. 6-7) after 5 years of employee ownership -- and 5 years of tax subsidies. Employees bought the plant to save their jobs in 1991, turned the company around, and sold at a handsome premium in 1995 -- including the value built with the tax subsidy. With Canadian General it has been business as usual. Last year Canadian General bought Uniroyal's vinyl business in Port Clinton, Ohio, to consolidate it into Textileather, shutting down the Port Clinton plant. Uniroyal simply refused to entertain a spirited employee bid to buy the plant and keep it open. The Port Clinton shutdown put 141 employees into the unemployment line. Maybe we should establish some way to recapture the tax subsidy in the case of short-term employee ownership.

Throughout the book, Jeremy Best emphasizes creating a "true partnership" which we would call "an ownership culture." The British were ahead of us here. Spendan Lewis introduced

"Committees for Communication" in 1912. They are still going strong.

In addition to the fascinating British case studies, *Owning Your Own Job* offers a very knowledgeable outsider's perspective on three prominent American ESOPs (United, Republic Engineered Steels, and Polaroid), on the United Steelworkers of America's ESOP policy, and a Hungarian porcelain plant privatized through employee ownership. Those chapters are worth reading as well.

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**Larkspur Data's Pension/Benefit DataMaster (CD-ROM).** Available for \$595 from Larkspur Data, One Commercial Blvd, 2nd floor, Novato, CA 94949; Tel. 800-282-4567; fax 415-382-9170; website: [www.larkspurdata.com](http://www.larkspurdata.com)

**I**n doing research on ESOPs, we have struggled for more than a decade with the Form 5500 filings that are done on qualified employee benefit plans. A decade ago, we got them from the Internal Revenue Service on tape, but had the devil of a job trying to use them. Five years ago we discovered Larkspur Data's *Pension/Benefits DataMaster*, which made the ESOP 5500 filings easily accessible for the first time in a user-friendly CD-ROM version.

The 1999 edition of the *Pension/Benefits DataMaster* contains Form 5500 data on a million qualified employee benefit plans covering 75 million plan participants and \$6 trillion in investment assets.

Aside from the data itself, the real value of the software is in its easy to use search engine. *DataMaster* allows you to search by any combination of over 50 different search criteria. Searches can be as simple or as complex as the user desires. Once you've run your query, click on "list" to see all the plans that meet your custom search criteria. Double click on any plan to view a detailed report with up to 213 fields of information. *DataMaster* allows you to sort within the program, even export to excel or your contact management software. There is even a button that allows you to create mailing labels. Larkspur Data makes no claims as to the completeness or accuracy of the data provided. The information you're getting is exactly what employers have chosen to report to the government.

We asked OEOC faculty associate Jacquelyn Yates, who had previously worked extensively with Larkspur's 1994 CD-ROM, to review the new and, she says, much improved 1999 *Pension/Benefits DataMaster*.

The 1999 *Pension/Benefit DataMaster* CD-ROM is a vast improvement over previous versions. Its new virtues are largely in the category of user-friendliness. There are handy menus for selecting search categories, so that the user need not constantly refer to the codebook. Boolean logic is still available for searching, or the user simply organizes searches by category, with the ability to eliminate unwanted cases by a simple click on a check box for each case.

One can view the search results in three different ways: an information-dense list in a small font, a very readable "contact list" format, and mailing labels. In moving around the list generated by a search, all the usual Windows features work: Control-Home takes you to the top of the list, and Control-End, to the bottom of the screen. Page-Up and Page-Down also work, as

well as the slider of the side of the screen. The on-screen sort button is ever so useful for isolating cases with specific characteristics. The program took about 10 seconds to sort a search with more than 50,000 cases.

What is more, searches of text entries succeed with individual words in the firm title. I was charmed to find that there are more than a dozen Ohio firms with the antique word "cartage" in their names. Moving between the list of cases and the details of each case requires only a single click, of the mouse, and both the details and the list are presented in a friendlier format and typeface than the old data. When one is looking at the details, there is a useful button allowing the user to move to the next case or the prior case with a single click. It is in the lower left corner of the screen, not a place where one usually looks for a button, and it took me a little while to notice it.

Most importantly, the export function works very well, at least to Excel spreadsheets. A direct export to SPSS was less successful: Windows 98 and SPSS 9.0 did not read the paired commas as missing values. To prepare a file for SPSS, it was necessary to export to Excel, save in the right version of Excel, then pick up the Excel spreadsheet in SPSS. This is easily done, but it is frustrating when the user has to discover it herself.

As for the data itself, it is much improved, with almost no cases with all zeros in the responses. There are still some problems both in the data entry process and in the completeness of responses. For example, Columbus is misspelled three different ways in the entries for Ohio. Springfield also boasts three misspellings, while Spring Valley and Wilmington each have two. These are easy to pick up when one sorts by city, but would be lost on an ordinary search. Checking data is costly, and maybe a business user wouldn't care if he/she missed a few prospects. As an academic, inaccuracy makes me grumpy and nervous that I've missed something I should be picking up.

Responding companies continue to blissfully skip categories on the Form 5500 or to fill the form out in thoroughly idiosyncratic ways. I encountered more than a few firms which reported some number of participants in their plans but also reported that they had zero employees. If that actually means that the number of participants is equal to the number of employees, I would like to know it. If it doesn't mean that, I would like to know the number of employees. Another frustration is that firms don't always categorize themselves as we think of them, at least in the world of Employee Stock Ownership research. I found 440 plans that checked one of the ESOP categories in Ohio. Of these, 49 reported no active participants, and 66 reported no assets. A few firms had participants, but no assets. That's a pattern which makes sense. Three firms reported 0 participants, but had assets, which makes no sense at all. There were only 10 duplicate entries for Ohio, and except for one, these appeared to be active plans with assets in them. Twenty nine were, inexplicably not ESOPs but health and welfare plans, and several medical practitioners indicated that a benefit plan, including exactly one doctor, was an ESOP; three defined benefit plans checked the ESOP box too. It would be helpful for the IRS to improve the Form 5500 instructions.

Comparing the Larkspur Data to our 1992-93 Ohio study, I found that 35 of our original 158 were not listed among the 440 ESOPs. Twenty-four of the 35 were found with a city or firm

name search: 16 reported that their plans as profit-sharing and 8 listed themselves in other ways: 401k, no 401k, prototype plan, or non-public securities, and each of these categories has thousands of cases in Ohio alone. Eleven of our cases couldn't be found at all on the database, but they may have sold out, folded, or changed their names in nine years. This represents an improvement over the 1989-90 data when 48 ESOP firms in the study could not be found in the ESOP classification, and 19 could not be found at all.

A further caution in using the data for ESOP research is that the reports may inflate the number of ESOPs in the U.S. generally. One firm reported 105 ESOPs, each with just one participant!

A final, slight drawback is that moving around on the list entails a noticeable hesitation (3-6 seconds) when moving to a new screen, but a quicker response came via the scroll wheel on the mouse, which is not useful for long jumps. I suppose someone who spent a combined total of several undergraduate weeks working on a Friden calculator and several months of graduate study working on a counter-sorter shouldn't complain about waiting a few seconds for her sort, but nonetheless, the consciousness of waiting is there, even on my brand new 600 Mh Dell.

Bravo! to Larkspur for a greatly improved product. Keep up the good work.

Jacquelyn S. Yates

## Noted briefly:

Gary Hansen and Frank Adams, *ESOPs, Unions & the Rank and File: The SACCO Guide for Union Members in Businesses with Employee Stock Ownership Plans* (Asheville, NC: SACCO, 1999), 55 pp., \$4.24.

SACCO is the Southern Appalachian Center for Cooperative Ownership, a new organization with an experienced staff promoting employee ownership and co-ops in North Carolina. (Address: One West Pack Square, Suite 1506, Asheville, NC 28801) This short 55 page "shirt pocket" guide to ESOPs is a readable and accurate explanation for union members in ESOP companies or involved in a buyout effort. It's good, cheap, and bulk rates take the price down to as little as \$2.20 if you buy more than 100 copies. Buy a box!

George Cheney, *Values at Work: Employee Participation Meets Market Pressure at Mondragon* (Ithaca, NY: Cornell University Press, 1999), 240 pp., \$35.

The Mondragon cooperative group in the Basque region of Spain has been a model for those interested in employee ownership internationally for the last several decades. Cheney's fascinating volume focuses on the impact of economic globalization on the Mondragon system, as these co-ops seek to compete internationally. How have they changed? Do the changes undercut their values? The Mondragon experience continues to have implications far beyond the Basque region for all of us interested in democratic employee ownership. □

## Succession Planning Program

### Spring 2000 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 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	Topics
February 24	<i>Maintaining Harmony in the Family when you Transfer Your Business</i>
March 9	<i>Tax Issues for Consideration in Succession Planning</i>
March 23	<i>Buy Sell Agreements</i>
April 6	<i>Cashing In: Maximizing the Value of Your Business</i>
April 20	<i>Selling to Your Employees: Employee Stock Ownership Plans</i>

To register or for more information, please contact:  
**Alex Teodosio at 330-672-3028 or [ateodosi@kent.edu](mailto:ateodosi@kent.edu)**

## Transforming Workers Into Owners

**T**he boom economy of the 90's that has generated enormous new wealth for the already affluent has also deepened the economic imbalance that has divided American society and has left millions of middle-class Americans struggling to survive with lower pay, uncertain jobs, temporary work, and the competing demands of balancing family and two careers.

Last year, the Federal Reserve reported that 60% of American families own no stock at all -- no 401 (k) plan, no mutual fund, no company stock, no pension plan invested in stock. Furthermore, among the 40% who do own stock, ownership is heavily concentrated at the top. The top 1% of the wealthy own nearly 50% of all stock in America.

Many financial analysts agree that there is no way society can sustain this much accumulated wealth distributed to so few

*Ultimately, greater economic growth can only be achieved by a broadening of corporate ownership through employee ownership.*

people in the long-run. Continuing to manage the firm in the short-term with "shareholder value" as the primary goal will become counterproductive. Our future calls for workers to be viewed in a new paradigm - as partners, not as subordinates.

Ultimately, greater economic growth can only be achieved by a broadening of corporate ownership through employee ownership.

### Modern ESOP Expansion in the United States

The mushrooming of employee ownership over the last decade is due in large part to the legal recognition of ESOPs in the Employee Retirement Income Security Act of 1974 (ERISA). This act gave statutory definition to a concept introduced by Louis Kelso and Patricia Hetter in *How to Turn Eighty Million Workers Into Capitalists On Borrowed Money* (1967). Kelso and Hetter believed greater economic growth could be achieved by a broadening of corporate ownership.

Since capital is the primary source of an affluent society, "universal capitalism" is a prerequisite for real economic expansion. A vehicle was needed to encourage a broader population to accumulate shares of corporate ownership so individuals could gain a viable share of corporate wealth which they in turn could use to develop their personal wealth. Kelso and Hetter believed that as the number of people with multiplying net worth grows, so would the economy grow at a substantially increased rate. They proposed to motivate corporations via tax incentives and finance the leveraged acquisition of new capital through the discount window of the Federal Reserve. Less than a decade later the first part of their proposal was made part of U.S. economic policy as Congress awarded ESOPs tax-favored status in the Employee Retirement Income Security Act (ERISA) of 1974.

### The Corporate Performance Advantage

Sharing ownership with employees offers the opportunity to

involve the workforce in the business with the same sense of responsibility that an owner experiences. An employee-owner or "worker-owner" is more than a wage earner; he or she is also an owner of the means of production.

Consider the difference between renting and owning a home. Unlike a person who rents, the home owner has equity in his or her investment and therefore will have an incentive to increase the value of that investment. After all, how many renters do you know that paint the outside of their residence? Just like a homeowner, an employee-owner has a greater incentive to drive the value of stock in his or her company. This can result in reducing scrap, generating creative ideas on how to improve a process, and producing better quality products.

When employees have an ownership interest in their company and are valued for their input, their jobs become more meaningful. Satisfied employees as well as satisfied customers stay with the company longer!

The Ohio Employee Ownership Center (OEOC) at Kent State University surveyed 167 Ohio ESOP companies and found that employee-ownership coupled with participation, education and information leads to higher financial performance. Equally important, a study in the State of Washington showed that companies which reward employee participation with stock ownership outperform those which only reward participation with profit sharing.

The transformation of workers into owners requires a commitment to cultivating a genuine sense of ownership where the



*Proud employee owners at the annual employee owner retreat.*

employees take the responsibility of ownership seriously and their actions contribute to the company's success.

This is not a radical new concept. In the 1919 Program of Social Reconstruction, Catholic leaders observed "the full possibilities of increased production will not be realized so long as the majority of workers remain mere wage earners. The majority must somehow become owners, at least in part, of the instruments of production." This judgement stills remains valid in today's economy. Today, there are over 11,000 established employee-owned companies and 9.5 million employee owners in the U.S. That's about 8% of the our private sector. □

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# OWNERS AT WORK

Volume XI, No. 2

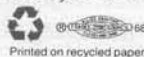
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## OEOC

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## OEOC

Ohio Employee Ownership Center

### UPCOMING NETWORK EVENTS

**April 27**  
*Akron, OH*  
**CEO Roundtable &  
Pre-conference for ESOP companies  
Company Showcase**

**April 28, 2000**  
*Akron, OH*

**14th Annual  
Ohio Employee Ownership  
Conference**

**June 19-21**  
*Kent State*  
**ESOP Summer Institute:**  
*ESOP Communication Committee Training;  
Financial Training; & ESOP Administration  
Training and Trustee Training.*

**July 20**  
*N.E. Ohio*  
**ESOP Administration Forum:**  
*ESOP Administration Update*

**August 17**  
*Dayton, OH*  
**ESOP Administration Forms:**  
*Diversification and Repurchase Planning*

**September 13**  
*S.W. Ohio*  
**ESOP Communication Forum**  
*Rejuvenating ESOP Participation*

**September 21-22**  
*Mohican Resort*  
**CEO & Senior Manager Retreat**  
*Current issues & pre-selected topics*

**October 26-28**  
*Atwood Resort*  
**Employee-Owner Retreat**  
*Understanding ESOPs, business  
financial statements & team-building.*

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

### OTHER EVENTS

**March 13-15**  
*LaJolla, CA*  
**Employee Ownership Strategies**  
*Foundation for Enterprise Development  
Call 858-459-4662 or [www.fed.org](http://www.fed.org)*

**March 22**  
*Columbus, OH*  
**Annual Spring Conference**  
*Ohio ESOP Association  
Call Kim Imbrogno at 440-989-1552*

**April 12-14**  
*Chicago, IL*  
**Annual Conference on ESOPs**  
*National Center for Employee Ownership  
Call Ryan Weeden at 510-272-6491*

**April 14-15**  
*Chicago, IL*  
**C.O.G. National Seminar**  
*Capital Ownership Group  
Call Deborah Olson at 313-331-7821*

**May 10-12**  
*Washington D.C.*  
**Annual Conference**  
*The ESOP Association  
Call 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 the OEOC at 330-672-3028 or [oeoc@kent.edu](mailto:oeoc@kent.edu).

**visit our website at [www.kent.edu/oeoc](http://www.kent.edu/oeoc)**