

# OWNERS AT WORK

THE NORTHEAST OHIO EMPLOYEE OWNERSHIP CENTER

Volume III, No. 2



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## PEERS EDUCATE PEERS AT REPUBLIC ENGINEERED STEELS

Conventional thinking argues that there is no sense in having crane operators, secretaries, die sinkers, and millwrights discuss operating income, foreign competitors, and stock dividends. Of course, conventional logic seldom considers these people as the owners of American corporations.

"As employee owners, we're entitled to the facts about our business plans, corporate structure, and financial performance," according to Russell W. Maier, President and CEO of Republic Engineered Steels. Employee owners of the Massillon-based, steel bar producer are getting the facts in a comprehensive owner education program, designed to bring information about ownership, the business, and financial issues to each one of the company's 4700 worker owners.

Republic's Owner Education Program -- initiated and monitored by a committee of union officials, salaried employees, and corporate officers at Republic -- is one of the components of a transformation from combative to cooperative union-management relations at Republic.

A large part of the changing atmosphere is the result of the new, joint labor-management structure the company and union have created. The overall joint committee, known as the H-1 Committee (named for a section of the labor contract), is also responsible for the development of a new management system, which includes joint problem-solving meetings at all levels of the company. The owner education program complements the new management system by providing, in a separate setting, employee owners with basic information needed to participate effectively in the new management system.

Republic Engineered Steels, formerly the Bar Division of LTV Steel, became 100 percent employee owned in November 1989. Through an employee stock ownership plan (ESOP), hourly employees organized by the United Steelworkers of America (USWA), salaried employees, and corporate management became co-owners of the second largest employee-owned steel company in the United States.

The company, a producer of high-quality specialty bar products, has faced enormous challenges as a stand-alone steel company. It operates in a highly competitive market sensitive to the ups and downs of the business cycle. Moreover, the division, like most of the rest of the steel industry, has a historical tradition of adversarial labor-management relations. The owner education program is a

key element in the H-1 Committee's effort to transform the adversarial environment into one of greater cooperation.

### Classes in trailers and break rooms

Distinctly different from the average education or communication effort in an employee-owned company, Republic's Owner Education program focuses on building in-house capacity. The instructors who deliver more than 300 classes every six weeks are not professional trainers from the human resource department, consultants, or corporate officers. Instead, they are average employee owners who have been trained to teach their co-workers on company time. They spend, on average, 25 percent of their time training and the other 75 percent on their regular job. Four-fifths of the trainers are blue collar; one-fifth are white collar employee owners.

### Profile: Republic Engineered Steels

**Products:** Hot rolled and cold finished special quality steel bar products.

**Employment:** 4,700 (4,000 in Ohio).

**Sales:** Approximately \$600 million.

**ESOP:** 100 percent ESOP. USWA locals in five states, upper management, and the salaried workforce of the former LTV Bar Division joined together to purchase the company from LTV in November 1989.

Forty-five in-house trainers from facilities scattered over five states make regular trips -- every six weeks -- to Massillon, Ohio where they attend intensive, one-day train-the-trainer workshops. At the end of this month, for example, they will assemble for a workshop on how to read Republic's quarterly benefits statement. The statement shows an individual employee's ownership share. The peer trainers will brush up on the mechanics of the ESOP and the Preferred Stock Plan and apply it to a sample benefits statement. They will then go back to their plants and offices and, in teams of two, run one hour classes for their co-workers. In the last year, this group of trainers has delivered more than 2000 classes on eight different topics ranging from understanding common stock and Republic's quarterly financial statements to an overview of the bar steel competition.

At the train-the-trainer workshops, run by the Northeast Ohio Employee Ownership Center (NOEOC), peer trainers hone their knowledge of the content of each class and practice training techniques. Materials for each class are developed by the staff of the NOEOC in cooperation with members of the H-1 Committee, Republic's in-house experts, and two peer trainer teams selected for each class.

The peer trainer approach, although still experimental, is getting high marks from the firm's leadership. In a recent survey of twenty-one members of the H-1 committee, there was an overwhelmingly positive response to the peer trainer system. "I think it's the best idea," says Dave Borell President of USWA local 1124 in Massillon; "people from the rank-and-file are more trusting when they hear it from their own." Another H-1 member noted that the peer training "gives the training an openness, honesty, and credibility" that training done by management, the union, or an outsider never would possess.

### An investment in the future

Republic Engineered Steels is making a tremendous investment of resources in owner education. A portion of this innovative program's cost is supported by a \$300,000 grant which Republic received from the Ohio Department of Development. Including this assistance, it is estimated that the program, which is slated to last at least thirty months, will cost the company \$4.2 million in lost time and training costs.

Is the investment worth it? The peer trainers think so. The program has helped build trust and knowledge at the same time. One trainer summed it up in a recent survey by saying "I have seen a big change in the attitudes of the people since the OEP (owner education program) started... by giving employee owners the facts and not a lot of lip service or 'el toro feces,' a true feeling of interest and pride seems to be emerging." A plant manager noted that the positive effects of more knowledgeable employees can be seen everyday. "The more people know, the better employees they become. The more they understand, the better they'll appreciate decisions being made," he stated.

Even though change is evident at Republic, many see it as one step in a long process of change in the traditional relationships. As one of the more cautious members of the H-1 committee says, "it's one heck of an undertaking. People still don't understand what they have yet. You don't turn around twenty-to-thirty years overnight."

\* \* \* \* \*

Republic Engineered Steels recently won the LIFT (Labor Investing For Tomorrow) Award from the US Department of Labor for its efforts to promote labor-management cooperation and to include workers in the company's decision-making process. The awards are given annually to recognize creative solutions to the challenges faced by workers and employers.

### THE NORTHEAST OHIO EMPLOYEE OWNERSHIP CENTER

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

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

### OTHER ORGANIZATIONS WHICH PROMOTE EMPLOYEE OWNERSHIP IN OHIO

*Common Wealth*  
P.O. Box 6212  
1221 Elm Street  
Youngstown, OH 44505 (216) 744-2667

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

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

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

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

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

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## EMPLOYEE INVOLVEMENT AT REPUBLIC STORAGE: A LEARNING PROCESS

The reporter from the Canton Repository asked Leonid Leibov, Managing Director of Mosfurniture, a Soviet firm exploring a transition to employee ownership, how long he thought it would take for Mosfurniture to become a participative employee-owned company. Leibov replied quickly: "about a year." Knowing smiles appeared on the faces of the labor and management leaders in the room from Republic Storage Systems (RSS), which was hosting the visiting Soviet delegation. The reporter turned to Republic Storage's CEO, Lowell Marshall, and asked him how long it had taken them to do the same thing. Marshall leaned back, rubbed his brow, and commented that RSS was "still working on it." Those assembled nodded with the wisdom of five years of being a 100 percent ESOP under their belts.

If experience is the best teacher, labor and management leaders at RSS, a Canton-based manufacturer of steel lockers, storage systems, and automated retrieval systems, have been taught well during the last five years. RSS set up its employee stock ownership plan (ESOP) for one primary purpose: to preserve jobs. In 1986, it was one of several manufacturing subsidiaries being sold off by LTV because it did not fit into LTV's changing corporate focus. Salaried and hourly employees, represented by USWA locals 2345 and 5537, were concerned about who would purchase the profitable facility. Would the plant, which employed about 600, stay in Canton?

Lowell Marshall, then a Vice President for LTV, recognized the plant's potential as a stand-alone operation. He and his management team joined forces with the two union locals to create the new, employee-owned Republic Storage Systems in June 1986. Working together on an employee buyout was by no means an easy task. The structure of the new firm was hammered out between the two groups similar to the way labor contracts had been in the past, but in the end they reached agreement and Republic Storage Systems was born. The jobs had been saved; the work was just beginning.

### Employee participation: learning by doing

After the employee purchase, the company tried to create participative groups on the shop-floor level. These groups were designed to work on and solve production problems. In retrospect, leaders think that the effort was too ambitious and a little premature. Becoming an ESOP does not automatically erase forty-five years of tense labor-management relations. Problems in making the transition to employee ownership were as difficult for the original employee board members as they were for the employees they represented. Some employees saw their elected board members as representatives of the union, while others saw them as representatives of the "new" employee owners. There was much debate among those who saw these roles as conflicting.

The early years of trying to change traditional roles were tough ones on both labor and management. Adapting to a new way of interacting has not been easy for any of the people involved. Marshall thinks that middle managers, who were being asked to change the most, did experience difficulties in trying to adapt to the new environment. He readily states that "the first three-and-a-half years were tough." Union leaders concur. They noted that labor and management leaders had struggled to change their relationship since RSS became an ESOP, but the company really did not start to pull together until 1989. Today, the employees of RSS are discovering that the two roles -- union member and employee owner -- can and should be very similar.

### Evolving participation systems

Learning to change from the traditionally adversarial relationship to one of cooperation has required a series of new approaches and inventive solutions -- and the ability to learn from mistakes made along the way. Both labor and management have learned a lot during the last five years. Republic Storage Systems' evolving participation system is one that is unique to the company and reflects its history and development as an ESOP. The USWA locals are an integral part of the firm's current committee structure as are the salaried groups. The system utilizes employee input on several levels. Employee owners impact broad company policy through their elected directors on the company board and influence day-to-day personnel and production issues through a system of committees. The participative structure itself is a vehicle for the ongoing dialogue between management and both hourly and salaried workers.

Participation at Republic Storage Systems begins at the seven member board of directors, which makes decisions regarding broad company policy. Four board members are RSS employee owners and all are elected by the employees on a one-person, one-vote basis. Of the four internal seats, two are filled by an election among the salaried employees and two are voted on by the unionized employee owners. Presently, due to financial considerations, the three outside board members, who were chosen by the ESOP's Buyout Committee, can re-elect themselves. However, in the near future, the four internal board representatives will elect the outside directors.

Roger Elder, recently elected to the board from the union ranks, noted that his role as an employee board member is to both keep employee owners informed and to educate them about board decisions. "If a board decision is about something you're giving them, then you don't need their approval; if you're taking it away or it is something controversial, you'd better listen to their opinion," he stated. "The majority of the people are going to make the right decision, but it's your responsibility to educate them about the issue." Board members take their educational role very se-

riously. Part of that role is disseminating information from the board meetings to the shop floor and corporate offices.

RSS has recognized that participation cannot happen unless everyone is informed of what the board is doing. Copies of the minutes of board meetings are available to all employees for reading in the Employee Relations Office. Having both union members and salaried staff on the board gives labor and management added insight into the problems of running the business. Labor and management are currently considering a board expansion, which would create both a new salaried and a new hourly seat. The expansion would provide a permanent seat for the president of USWA local 2345 and add an elected salaried seat. It would enable more people to participate in the board process and be educated by it. Warren Sawicki, Manufacturing Manager, thinks that more involvement makes the system work. "It's all part of participation; the more we learn, the more we get involved, the better off the relationship between labor and management will be, plus the greater the chances for changes for the better."

#### **Change in the office and on the shop floor**

Although board participation is an important part of RSS's structure, the focus of the employee participation and communication effort at RSS has gradually shifted to the firm's committees.

When the ESOP was first established, two committees were set up: the Public Relations Committee and the ESOP Directive Committee. The Public Relations Committee, made up of both salaried and hourly employees, has been active in organizing company-wide events and promoting the ESOP since RSS became employee owned. The ESOP Directive Committee was composed of the top management and union leadership. It was designed as a joint labor-management group formed to solve problems, review new ideas, discuss cost savings, and plan production improvements. Committee members appointed other employee owners as temporary members, so they could be resources on issues and could develop a better understanding of what their company was doing.

While the Public Relations Committee has continued fulfilling its initial role, the ESOP Directive Committee has evolved as RSS has changed. Over the course of many discussions, committee members realized that the need for both communication and attention to day-to-day concerns required more than one committee. That led to the development of the committee structure currently in place.

Today, twelve permanent committees provide channels for employees to add their input, to share information among different parts of the company, to help educate employee owners, and to deal with problems that come up. In addition, temporary committees can also be formed to meet special needs. The committees are the main component of Republic Storage Systems' developing employee participation system. It is through them that issues are raised, important information is communicated, and even much of

#### **Profile: Republic Storage Systems**

**Products:** Steel storage racks, shelving and lockers for schools, gymnasiums, and health clubs, and automated storage and retrieval systems.

**Employment:** 385 hourly represented by USWA locals 2345 and 5537; 160 salaried workers.

**Sales:** \$50-60 million.

**ESOP:** 100 percent ESOP formed in 1986 to avoid a possible purchase of the Canton plant by buyers interested in transferring production elsewhere and shutting the Canton facility.

the employee training is facilitated. The committees are fairly autonomous and organized on a functional basis or around some activity.

The Situation Review Committee evolved directly out of the ESOP Directive Committee. One of its primary goals is to increase communication between labor and management. The committee has undergone several fundamental changes in purpose, powers, and membership to reach its current status. It is made up of the Employee Relations Supervisor, two foremen, USWA local 2345's president, and two other members of the union negotiating committee. The committee acts as the main clearing house for employee suggestions and concerns, and tries to keep problems from escalating by dealing with them on the spot.

The Situation Review Committee is the only committee empowered to discuss the union contract; the decisions it makes are binding. For example, the committee can try to settle grievances before they go to arbitration. Although the institution of the ESOP witnessed a 75 percent drop in grievances, a goal of the committee is to solve nearly all of them before arbitration. So far it has been quite successful: only two grievances required arbitration during 1990, and none has gone that far this year.

Other committees are designed to solicit employee owners' input on decisions or to keep people informed. The Civic Fund Committee, for example, decides which organizations to support with the company's and employees' charitable donations. The Paint Supplier Committee makes decisions on which paint the company buys. This committee includes the purchasing agent and the manufacturing manager, along with two experienced workers from the paint department. Some of the committees, like safety and pension, parallel union-only committees organized by the local. The joint meetings, however, have been quite useful. At joint labor-management committee meetings, problems can sometimes be dealt with on the spot.



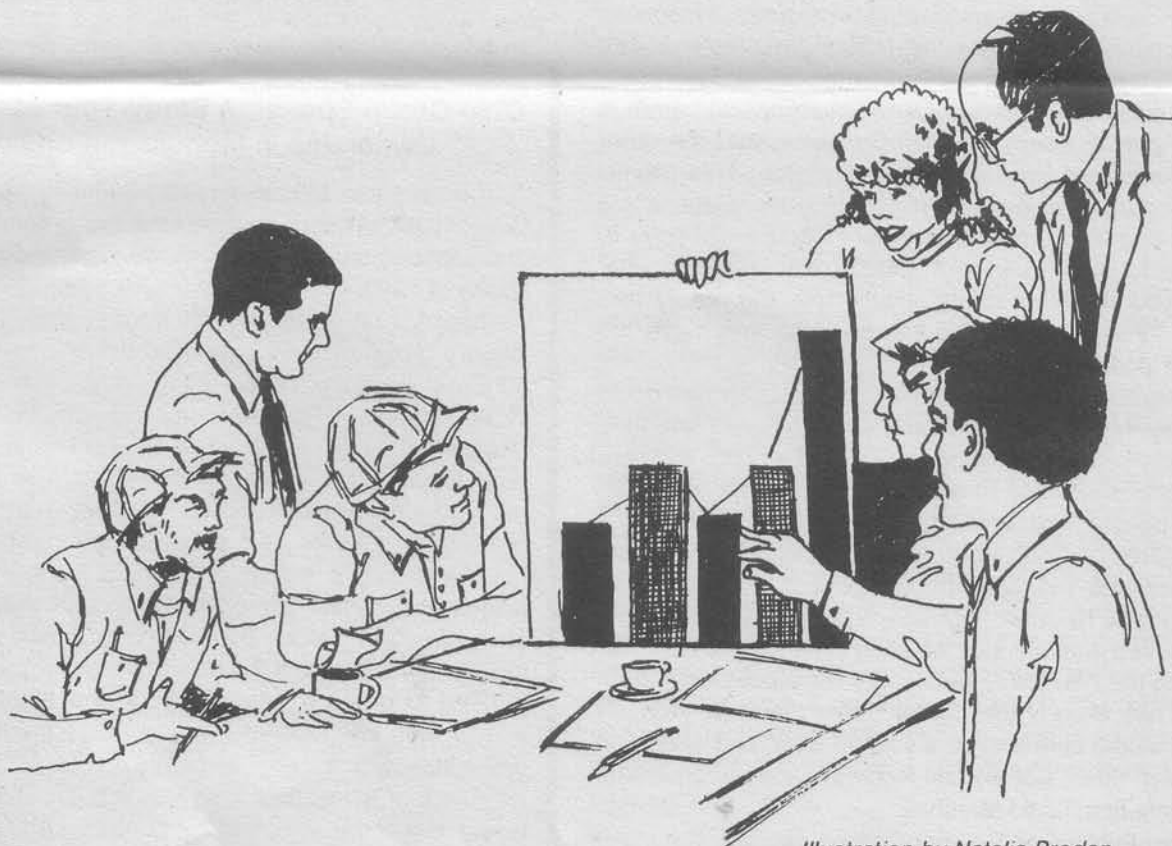
Committee meetings are held on a weekly, bimonthly, or as needed basis. All the meetings take place on company time (employees are paid straight time), but participation is voluntary. The chairs of the various committees were appointed by the CEO. The original chairs then appointed the additional salaried members, while the union president appointed the wage roll members. Each year new members are appointed by the union president and committee chairs. In general, employee owners, both hourly and salaried, deal with those issues directly related to their work.

"The main reason for people to be on committees is for them to get involved and show them how the company operates," said Lou Chastain, President of USWA local 2345. Any hourly worker can volunteer to participate, but shop stewards are especially encouraged because they are in a good position to share the information they get. Every six months or so, participants are asked to participate on another committee to broaden their understanding of the

company they own. An additional benefit to employee participation is that it can help to educate people who are unsatisfied with the ESOP. "People who have been difficult can see it's not as easy as they think after sitting in," Elder stated. In all, more than 100 hourly workers have participated on committees in the last year and a half.

The Salaried Communications Committee was formed in 1989. Each of the twelve salaried departments elects a representative to this group. It discusses improvements, handles some complaints, and brings new ideas to management's attention. To encourage committee members to speak their mind, none of the top managers is involved. During its first two years, the committee has taken on many projects, including the printing of an employee handbook that clarified many of the benefits for employees and eliminated numerous misconceptions.

"Each committee keeps track of itself," Marshall stated. In fact, there is no overall facilitator coordinating what the twelve committees do. The committees really are not connected in any hierarchy, but rather each one is connected



*Illustration by Natalie Prodan*

to specific functions of the company and the union. Company leaders note that this structure encourages people to participate. Sawicki credits Chastain with encouraging the hourly workers to stay involved. And, although the meetings take people away from production and cost the company money, Sawicki, the Manufacturing Manager, thinks that "it's absolutely worth it."

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*The traditional manager's role does not go away; you're still responsible for the same objectives. What changes is how you deal with the employees on a daily basis; if you stay in the office, you're not going to make it happen. Management spends much more time talking with the employees, both hourly and salaried.*

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#### **Communication between labor and management**

If the successful communication at Republic Storage was to be traced to one thing, it would be the willingness of people to cooperate with each other. CFO John O'Leary explains RSS operations with a political analogy. "Republic Storage operates a lot like the federal government. The CEO is like the President, management is his cabinet, union leadership and the Salaried Communications Committee members play the same role as Congress, and the other employees are the constituents," he stated. This power-sharing system has been essential to the new relationships forged among labor and management leaders. "It pays to be a good listener," says Bob Easton, who as Supervisor of Employee Relations deals directly with the hourly employees. "People are listened to because they have the right to be listened to," he stated.

Building an atmosphere where this unique system could survive required management and labor to reevaluate their roles, to listen to what the other side was saying, to share ideas in new ways, and to work together. Trust had to be created; people had to cooperate. "You deal fairly," Marshall stated. "You need to follow through, don't just give it lip service; practice what you preach."

Leaders at Republic Storage Systems warn that old habits die hard and that it is not going to be easy to continue developing the new ideas necessary for successful participation. It has already taken a lot longer than one year. "I thought it would take maybe a year till everyone liked and trusted each other, but we had forty-five years of problems to overcome first," said Marshall.

Sawicki thinks that the more things change, the more they stay the same. "The traditional manager's role does not go away; you're still responsible for the same objec-

tives. What changes is how you deal with the employees on a daily basis; if you stay in the office, you're not going to make it happen. Management spends much more time talking with the employees, both hourly and salaried." Marshall commented that he supports that practice "100 percent."

Marshall also spends a lot of time out in the plant. "That's extremely important in an ESOP," he stated. "You have to spend time with the people and show them they can trust you." While top management says spending time in meetings and out on the floor means taking a briefcase home nearly every night, they feel that it is definitely worth it.

Much like the managers, the role for union leadership has changed along with the expansion in responsibility. With representatives on the board of directors and in the committees, union leaders are involved in areas they had barely been concerned with before. Chastain's job has changed tremendously. Before the ESOP he mainly handled activities of the union. Now his job includes "more time on the shop floor and in meetings with top management -- I do just about anything." It is important for him to be available to troubleshoot problems that come up and to respond to questions and concerns. In addition, he now represents union members as owners. As Chastain puts it, "Now I worry about how we are doing as a company."

#### **Ohio Group Sponsors Study Tour of Worker Ownership in Mondragon Spain**

Cincinnati's Intercommunity Justice & Peace Center (IJPC) is sponsoring a twelve-day tour to study the Mondragon Cooperatives in Spain during the spring of 1992.

Mondragon is the world's largest and most successful group of employee-owned enterprises: two hundred separate cooperatives employ more than 22,000 people. The Mondragon group, collectively, has annual sales of more than \$1.5 billion (in US dollars); the worker owners of Mondragon have the highest productivity rates in Spain. In addition, the co-ops' profitability is nearly double that of their competitors.

Mondragon's employee owners benefit both in wages and capital appreciation through the cooperative structure. More than 400,000 families deposit money in the banks of the cooperative complex, which is used to develop new products and technologies, and to fund cooperative housing, supermarkets, and day-care facilities.

The tour will be held from March 5-17, 1992. If you would like more information, contact IJPC at (513) 579-8547.



## GOVERNANCE IN EMPLOYEE-OWNED ENTERPRISES

The next few issues of *Owners at Work* will contain case studies of participation structures that have developed at Ohio-based, employee-owned firms. Republic Storage Systems is one firm, among many, that has been developing and reshaping its participation structure as the company grows and changes. There are few examples that ESOP firms which are thinking about governance and employee-owner participation can follow when they look for a "model" participation structure. In a chapter in the forthcoming book, *Managing Modern Capitalism* (Hancock, Logue, and Schiller, editors), John Logue explores what a model governance structure for a participative employee-owned company could resemble. Below are some excerpts from the book.

### Feasible enterprise democracy

Existing democratic models for running companies have not been studied systematically. The definitive study will, no doubt, find that most managers and workers are less than happy with the models they have devised. They are likely to conclude, to paraphrase Churchill, that democracy is the worst imaginable form of corporate governance, except for all those other forms which have been tried from time to time.

There is no single formula for enterprise democracy. Which institutional structure works depends on the history and the culture of the company, its size, its work process, its employees, and its management. In general such structures provide for employee involvement -- either through representatives or directly -- at three levels:

- In the legal structures for corporate governance.
- In the week-to-week operations of the company.
- In the daily work process on the shop floor.

No matter what the institutional structure for enterprise democracy, the aim is the same: to create a culture of ownership in which employees act like owners on a daily basis and managers automatically involve employees in those decisions that concern them directly or to which they bring expert knowledge.

### The legal structure for corporations and ESOPs

When the company becomes employee owned through an ESOP, the employees become shareholders, but federal law does not require that they be accorded the same rights as other shareholders. In closely held companies (that is, companies not traded on a stock exchange), federal law does not require that employees have a right to vote for the board or that the board include employee representatives. It permits such provisions, however.

Procedures designed to deprive employees of the power to influence the board are not suitable for majority employee-owned firms or, for that matter, for minority employee-owned firms which seek to motivate employees to act like owners. Moreover, the experience with non-managerial directors in the significant number of firms which provide for direct employee representation on the board of directors suggests that such directors behave responsibly and are symbolically important.

Employee board and ESOP committee members, however, often have trouble serving as effective representatives for those who elect them because they lack

experience with and training for the issues they confront. To combat this, it is useful to provide intensive training and to select outside directors with technical competence whom the employees trust.

### Participation in running the plant

Employee-owned companies hire managers to run the firm just like conventional companies do. But they need a structure to provide continual employee involvement at the plant level. Without additional checks, even participatory managers can easily revert to exercising traditional managerial prerogatives or, equally damaging, will be perceived as doing so.

The most outstanding institutional innovation we have seen in democratically structured Ohio ESOP firms has been their solution to this problem through the establishment of plant steering committees that represent most or all employee groups. Sometimes the committees are advisory; in other companies they have the power to make binding decisions. In either case, the committee serves as a forum for two-way communication for shop-floor concerns to reach management and for management to share company-wide concerns with shop representatives.

### Participation on the shop floor

Board-level participation and plant steering committees provide employee input into long-term company planning, hiring management, and plant-level problems. The key factor in making most employees feel like owners, however, is to involve them in participation on the shop floor.

Shop-floor programs involve establishing problem-solving groups, departmental work teams, or functional groups that cut across work-group lines. The basic rule of thumb is to get as many employees as possible involved as owners. Such employee groups handle everything from producing newsletters to purchasing new equipment, from picnics to preventive maintenance, from getting vending machines that work to rearranging equipment in the shop to get a better work flow, from setting up sports facilities to setting personnel policies. For the average employee, such shop committees provide a genuine education in decision making.

*Excerpted from Managing Modern Capitalism: Industrial Renewal and Workplace Democracy in the United States and Western Europe* (Hardcover \$49.85, paperback \$19.85). Available from Greenwood Press, Box 5007, Westport, CT 06881, telephone (203) 226-3571.

## EMPLOYEE-OWNER FORUM

*Bob Bracci of The James B. Oswald Company Speaks Out*

### A Service Industry Approach to Employee-Owner Involvement

The James B. Oswald Company was founded in Cleveland, Ohio nearly one century ago. If the founders could see the organization today, we think they would share our pride in what has been accomplished. A small, family-owned business has become a full service, employee-owned company with affiliated offices throughout the world. Our activities include Property, Casualty, Life and Employee Benefit Insurance and Risk Management Services for business and individual clients. We also provide consulting services to other insurance agencies and carriers.

We achieved our success for a variety of reasons, but two are particularly significant:

- We have made the transition from single-person ownership to employee ownership and accomplished a great deal in the process.
- We are conscientiously and continuously involving our employee owners in the planning process of our company.

#### Specialization brings growth -- and problems

We are an independent insurance agency and prior to our push for aggressive growth, we staffed our company by hiring a sales person and a support person. This team would do every task necessary to generate new business and service our clients. The team wore many hats -- sales, underwriting, customer service, secretarial, etc. When a team was so busy that they could do no more, a new team was formed and the process was repeated.

The company had a flourishing business, but Jim Pender, our CEO, and other members of the company felt we were not reaching our full potential. An analysis of the situation indicated that the current structure was not allowing the company to take full advantage of the employees' predominant skills, so we decided to departmentalize and specialize.

This concept of maximizing effort by specialization proved effective and we experienced outstanding growth (revenue in 1980 was \$1,289,000 and as of 12/31/90, the Oswald organization's combined revenue was \$7,956,000).

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*Bob Bracci is Executive Vice President of The James B. Oswald Company.*

In 1980, the Oswald company had seventeen employees, compared to 136 employee owners today).

In the mid-80s, the company was doing well -- people were making good incomes, had a good benefits package, and a profit-sharing trust. It was then that the company took an in-depth look at perpetuation (James Pender owned approximately 80 percent of the stock).

We noted our move toward specialization conveyed a sense of being "left out." Employees didn't "wear as many hats" as in the earlier organization. Some felt they were not participating in defining the direction of the company. Each member of the organization was now having to rely on other people to get things done; whereas, in the past, they controlled all elements of the whole process -- sales through service. The challenging problem of team trust needed to be addressed. Uniquely, we saw the idea of employee ownership as a possible solution to this problem.

Frequently in a sale, an agency is purchased by another agency which systematically eliminates duplicate positions, etc. Jim Pender's philosophy, on the other hand, was that he wanted The James B. Oswald Company to be owned by the people who helped build it.

A small number of the employees might have eventually been able to purchase Jim's shares when he desired to retire; but Jim wanted all employees to have the opportunity to share in the equity growth -- even if they could not afford to purchase shares. It is important to note that Jim was forty-seven years old at the time the ESOP was established. He was not motivated by either retirement or cash needs. The question was: "what is best for the company and the people who built it?"

We formed our ESOP in 1985. The ESOP purchased 30 percent of the company from Jim Pender by using a leveraged ESOP transaction financed by Assurex Development Corporation. Assurex International is a worldwide group of independent insurance agencies, which, along with eight insurance companies, formed Assurex Development Corporation to lend money to Assurex members for the purpose of perpetuation.

#### Developing a participatory environment

With the ESOP in place, we returned to the question of employee-owner participation. We decided to use our strategic business planning process as our basis for healthy involvement. The following system was developed over a period of years. We have two formal planning sessions ev-



ery year during the months of May and November. These planning sessions are held off-site so that participants are not distracted. Each planning session takes two days.

The days are divided up as follows:

*Day 1 -- All supervisors and managers.*

*Day 2 -- All senior officers plus two participants from Day 1.*

The planning sessions are conducted by an outside professional facilitator. This approach allows participants to interact on an equal basis and keeps us focused so that much more can be accomplished.

#### **Profile: The James B. Oswald Company**

**Products:** Property, casualty, life and employee benefit insurance and risk management services for business and individual clients.

**Employment:** 136.

**Revenue:** \$7,956,000.

**ESOP:** 30 percent ESOP established in 1985. ESOP purchased stock from Jim Pender, who wanted to perpetuate the business and get employees more involved in operations.

At first, we did not use an outside facilitator, which meant one of us was the facilitator, as well as a participant. This was not as effective as our current approach because it gives the appearance of lacking objectivity (especially when things get controversial!) Using an outside facilitator has helped eliminate this concern.

The managers and supervisors develop goals and objectives during Day 1, which are compatible with the company's mission statement and policies. These goals and objectives are presented to the Day 2 participants for endorsement, very often without any modification. The managers and supervisors meet with their respective employee owners prior to the planning sessions to obtain their input and are responsible for reporting back to them after the planning session is completed.

Once the goals and objectives are established, committees of employee-owner volunteers are formed to develop the action plans necessary to achieve objectives. We feel this approach gives all employee owners the opportunity to participate to the extent that they wish to be involved. We provide the environment for participation. The employee owners take it from there.

Occasionally we need to address a problem on an emergency basis. When this occurs, we form a committee of employee-owner volunteers to deal with the situation. An example of this arose recently when our short-term financial results were unsatisfactory. We needed a faster reaction to disturbing revenue and expense trends, and we got it! The committee suggested ways for improving employee-owner effectiveness. The recommendations were accepted by management. We feel our situation is improving as the result of this and other committees' work.

We are doing other things to involve our employee owners, but the activities revolving around the planning process have been very effective in giving our employees a sense of ownership, and a feeling of participating in their own destiny.

As we enter our second century, The James B. Oswald Companies are proud of our past and confident of our future. That future will depend on two things: careful strategic planning and effective involvement of our employee owners.

#### **Upcoming Events**

##### **October 18, 1991, Columbus**

*"The Ohio Chapter of the ESOP Association's Annual Conference,"* for more information, call Perry Fisher at (614) 442-3355.

##### **October 28, 1991, Cleveland**

*"National Center for Employee Ownership's ESOP Workshop,"* for more information, call the NCEO at (415) 272-9461.

##### **November 14, 1991, Kent**

ESOP Administration Forum: *After the ESOP Loan is Repaid*, a program sponsored by Ohio's Employee-Owned Network. For more information, contact Dan Bell at (216) 672-3028.

##### **December 4-6, 1991, Cleveland**

*"Toward Competitive Advantage: The New Realities of Learning and Work,"* a leadership forum sponsored by the Ohio Manufacturers Association in partnership with the National Alliance of Business, the Ohio Board of Regents, the Ohio Bureau of Employment Services, and the Ohio Department of Education. For more information, call Valerie Wallen at the OMA (614) 224-5111.

##### **December 5, 1991, Kent**

*"Employee-Owner Supervisor Workshop,"* a training session of Ohio's Employee-Owned Network. For more information, call Dan Bell at (216) 672-3028.

## NETWORK NEWS

### CEOS AGREE ON 1991/92 PROGRAMS

The need for introductions never seems to end at the annual meeting of Ohio's Employee-Owned Network. Attending their first annual meeting were CEOs from *Hooven Allison, Moore-Peterson, Quincy Castings, Riesbeck Food Markets, Star Bronze, Textileather, Wright Tool* and *YSI*. They joined past participants from *Dimco-Gray, Elwell Parker Electric, Fastener Industries, James B. Oswald Company, Mantaline, Plymouth Locomotive, Republic Storage Systems, Reuther Mold & Manufacturing*, and *Sharon Manufacturing* at Kent State for the Network's second annual CEO meeting on September 12, 1991.

New and old alike had many things to share with each other. For some of the newer companies, exploring what it means to be an employee-owned enterprise, and finding out about the Network, were high priorities. Representatives from the more mature employee-owned companies noted that they were making progress in their efforts to develop participative management. According to the CEOs, an element in making participation work has been the introduction of training for employee owners from management to the shop floor.

#### Working through the recession

Whether new or old, many of the seventeen key company leaders attending felt that surviving in these recessionary times was a significant achievement. Several CEOs commented that their company's employee owners had contributed many good suggestions to handle the negative effects of the recession. For example, at one company, older employee owners chose to retire in order to help the company down size its workforce. At the end of the morning discussion, a few CEOs remarked that the more mature ESOP companies' experiences gave them renewed hope that the turbulent transitional problems they are currently dealing with can be overcome.

The 1990/91 year was another of successful development for Ohio's Employee-Owned Network. In fact, during 1990/91, 67 of Ohio's employee-owned companies participated in one or more Network programs and twenty companies became dues-paying members of the Network (up from fifteen). The CEOs suggested that having more companies involved would strengthen the growing Network. Current members thought that one way to recruit new members was for them to contact other companies and encourage other firms to join.

#### New, Updated Catalog of Products & Services of Ohio's Employee-Owned Firms Available

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

Strong support was expressed for continuing the current Network programs in 1991/92. As in the past, the employee owner retreats received enthusiastic reviews. In fact, two of the companies present snapped up the last remaining open spaces for the October retreat at Mohican.

The CEOs thought that Network events could be even more valuable if more time was allotted to informal interaction among forum attendees. Hence, they recommended that the Network experiment with an informal social gathering the evening prior to an all-day forum or workshop. This would allow company participants to network more and loosen people up for a more fruitful discussion the following day. The first of these informal gatherings is planned for November 13 in Kent, the evening before the ESOP Administration Forum.

CEOs discussed the value of reprinting the *Products & Services* catalog on an annual basis in its improved (and more expensive) form. The 1991 edition, which is distributed to purchasing agents at more than 165 Ohio employee-owned firms, lists more companies in greater detail than ever before and includes a product index for easy access. Due to the rapid increase in participating companies (catalog entries jumped 20 percent this year), the CEOs thought that periodic updates are clearly warranted and useful. One proposal discussed to cover the additional production costs was to allow ESOP service providers to advertise in future catalogs.

#### YSI hosts on-site participation forum

One of the most exciting changes in the 1990/91 Network program was the placement of the Participation & Communication Forums on-site at Network companies. At the suggestion of the companies attending the March 28 participation forum, the Center held the August 15 forum



on-site at YSI in Yellow Springs. YSI was a gracious host, freeing up ten of its employee owners to discuss their experiences with self-directed work teams. The additional seventeen participants from eight companies not only learned a great deal from the presentation and discussion, but also had the opportunity to tour YSI's facilities and to see first hand what had been discussed earlier in the day. The advantage of such on-site forums is that the host company is able to free up a larger number of employees to present a wider and more concrete view of the participation structure they are implementing. Visiting companies gain a great deal more than they might from the briefer presentations made at conferences and workshops. CEOs agreed that the on-site visits were useful to them and several have volunteered to host the Participation & Communication Forums scheduled for February 20 and August 20, 1992.

### CEOs discuss joint ventures

This year, the CEOs spent a significant portion of the day discussing potential joint ventures among Network members. Over the course of the last two years, the basic program of Network forums and training sessions has matured. With this basic structure in place, the NOEOC can increasingly turn its attention to developing a deeper level of cooperation among interested members. Two ideas which have surfaced repeatedly over the years are multi-company on-site training and an export cooperative. The Network is an ideal vehicle for these joint ventures because of the economies of scale it provides member companies.

At the CEO meeting, nine companies expressed interest in further exploring a joint supervisor training program. The program, still in its formative stage, will combine multi-

company workshops and retreats with on-site meetings at participating companies. The on-site meetings would be held between the multi-company workshops. There are several advantages to this approach. The cost of training in basic skills common to all supervisors would be shared at the multi-company sessions. These sessions would also enable supervisors to draw upon and to share experiences with their peers from other employee-owned enterprises who are going through the training. At the on-site sessions, a company's participating supervisors would receive individual attention within the context of their firm. In addition, the on-site meetings will allow the NOEOC to address company-specific issues related to supervisor training.

A proposal to explore an export-import relationship with Russian worker-owned enterprises also attracted interest from nine companies. The development of an ongoing series of exchanges between the NOEOC and a Russian organization called BUTEC has added a new twist to this proposal. BUTEC is a membership organization of more than 400 Russian enterprises in the forefront of the ongoing Soviet privatization process. More than sixty of these have already become worker owned. BUTEC's firms have expressed a strong interest in developing a business relationship with their US counterparts. Network members, BUTEC's Director, Valery Varvarov, and a number of invited resource people met on October 9 at Kent State to discuss building a bridge between Ohio and the USSR.

If the bridge is built, Network CEOs may have to bring interpreters to the third annual meeting. But whether or not that happens, Ohio's Employee Owned Network has a full agenda for its third year of existence. The calendar below outlines 1991/92's program.

### CALENDAR OF 1991-1992 NETWORK EVENTS

<i>Date</i>	<i>Location</i>	<i>Event</i>
11/13-14/91	Kent	<i>ESOP Administration Forum*</i>
12/5/91	Kent	<i>Employee Owner Supervisor Workshop</i>
1/23/92	Yellow Springs	<i>Workshop on Financial Terminology</i>
2/20/92	On site	<i>Participation &amp; Communication Forum</i>
3/19/92	Columbus	<i>CEO Roundtable</i>
4/22-23/92	Kent	<i>Employee Owner Board Training &amp; Forum*</i>
5/8/92	Akron	<i>7th Annual Employee Ownership Conference</i>
6/4/92	Yellow Springs	<i>ESOP Administration Forum</i>
7/23/92	Kent	<i>Workshop on Financial Analysis</i>
8/20/92	On-site	<i>Participation &amp; Communication Forum</i>
9/24-26/92	Atwood	<i>Employee Owner Leadership Development Retreat</i>
10/8/92	Kent	<i>3rd Annual CEO Meeting</i>

\* An informal gathering will be held on the evening before these workshops.

## THE BIGGEST BARGAIN IN THE ESOP WORLD!

### OHIO'S EMPLOYEE-OWNED NETWORK BEGINS ITS THIRD YEAR

If attending twelve training workshops and educational sessions for the price of one national ESOP conference isn't for you, then stop reading this.

However, if your company is looking for a cost-effective, multi-company training program, then you may want to consider Ohio's Employee-Owned Network.

Ohio's Employee-Owned Network, a consortium of Ohio-based, employee-owned enterprises, begins its third year of workshops and forums in November 1991. Network sessions are **specifically designed for employee-owned companies**. The Network is currently accepting new members. This is your company's chance to take advantage of what some have called the "biggest bargain in the ESOP world!"

In addition to training and education, Network events are designed to **encourage interaction among the participants** in attendance. So, employee owners have the chance to meet and to discuss topics with their peers from other employee-owned enterprises.

#### Network programs for 1991/92 include:

- CEO Roundtables
- Supervisor Training
- ESOP Administration Forums
- Financial Training for Non-Managerial Employees
- Employee Owner Leadership Development Retreats
- On-site Participation & Communication Forums

More than 85 of the estimated 300 Ohio employee-owned companies have participated in Network programs. The Network is designed to meet the **training and information needs of Ohio's employee-owned companies** -- and encourage interaction among Ohio's employee owners.

If your company would like to become involved in these Network activities (the entire 1991-1992 schedule is listed on page eleven) please call Dan Bell at (216) 672-3028 for further information.

### OHIO'S EMPLOYEE-OWNED NETWORK: WHERE EMPLOYEE OWNERS MEET

#### Owners at Work

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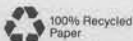
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