

# OWNERS AT WORK

OHIO EMPLOYEE OWNERSHIP CENTER

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## Is Employee Ownership Better for Your Health?

David Erdal

*Editor's Note: A look at the confident, relaxed and generally happy faces of employee-owners at an OEOC retreat or conference will give you the feeling that employee ownership is good for people. But research to support that casual observation has been lacking up to now. Building from a theory of human evolution and the findings of modern-day psychology, David Erdal has pioneered research on the impact of employee ownership on communities where the businesses are located and the people who live there. His conclusion: employee ownership means better physical and emotional health, a year or two more of life, an extra year of education, less domestic violence and a more supportive community. Read on for the details.*

**H**ow do employee-owned companies affect community life?

We know that employee ownership has financial benefit for employee owners. We know that employee ownership combined with employee participation improves company performance. But what impact does employee ownership have on the broader community?

To answer this question, I compared three northern Italian towns of about the same size, in the same region, and with similar economies. They differed, however, in the role played by employee-owned companies. In Imola, employee owners make up 26% of the workforce. In Sassuolo, by contrast, there are no employee-owned firms. The third, Faenza, was in between, with 13 percent.

My findings were clear. Employee ownership does make a difference.

On fifteen of seventeen quality of life measures, the community with high employee ownership is a better place to live than the one with least employee ownership. Residents of the community with employee ownership are less likely to be victims of crime, more likely to have a feeling of confidence in public authorities, more likely to have a feeling of security, less likely to

be involved with domestic violence, more likely to stay in school, more likely to have training after school, more likely to enjoy bet-

ter physical and emotional health, more likely to have a network of friends they can rely on in times of trouble, and even more likely to give blood. Data from a wide variety of sources consistently showed that Imola, an Italian town with much employee ownership, fared better than the two comparison towns with less employee ownership or none at all. As the graph on page 2 shows, on almost every measure, Imola scored better than the other towns.

The striking thing about this study is the very consistent pattern of results. Using many different measures, collected in many different ways, by different public and private agencies and researchers, Imola comes out as being the best.

### Why employee ownership matters

I had long believed that sharing and equality were important values in life, but the specific idea for this research developed when I was working at my family's business with the employees, preparing to sell to them and make it an employee-owned

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David Erdal (left) visits CEO Jay Simecek and Joseph Industries in Streetsboro, OH.

## Employees Buy Appleton Papers in \$810 Million Deal

**A** West Carrollton, Ohio, paper mill and recycling facility is part of an \$810 million 100% employee buyout of Appleton Papers, a very successful subsidiary of a British company. Last year (2000), the parent, Arjo Wiggins Appleton, announced that its U.S. subsidiary was up for sale. After the usual parade of potential buyers, the employees decided they liked themselves better than anyone else they had seen come through their plants and concluded that their futures would be more secure if they bought the Appleton, Wisconsin-based manufacturer of carbonless copy paper. So, the company's 2,600 employees bought all of the company stock and took the company 100-percent employee-owned as of November 9, 2001. The transaction ranks as one of the largest employee buyouts in history and marks the third paper industry employee buyout in three years, after the 45% employee stake in Blue Ridge Paper and the 40% employee stake in Blue Heron Paper.

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enterprise. I noticed how much more comfortable people were when they were working in an environment where the benefits were going to be shared, and it got me to thinking about why this level of comfort existed. It felt very deep, not something that people talked about or consciously strove for, so it seemed it might be evolutionary, going back into the early period when human beings were evolving into what they are today. When you look at that period, you realize that we had hundreds of thousands of years of living in small groups as hunter-gatherers. By contrast, modern humans have lived as settled agriculturalists only for a few thousand years, and in large cities for at most a few hundred years. So if we want to understand the dominant environment that shaped the human mind, we should look to the few remaining hunter-gatherer societies.

What the anthropologists who study hunter-gatherers have found is that they tend to be sharing societies, particularly in sharing meat.

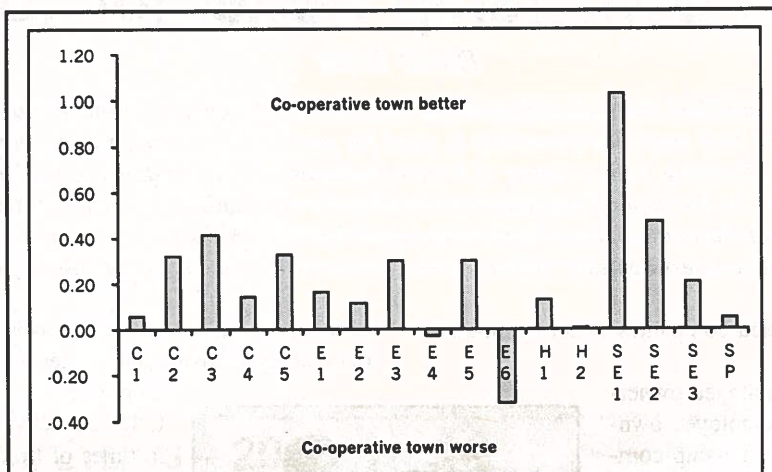
This may seem odd at first, but meat is a really valuable item in the life of these societies because it is a highly concentrated form of nourishment—lots of fats and complex proteins—compared to the routine low-calorie diet of grains, fruits and vegetables that the people collect on a daily basis. Because hunter-gatherers move around, they can't store a lot of food, and meat can carry people

over in times of famine, when other sources of food are in short supply, and because it is concentrated, it is ideal as a dried food to carry on journeys.

For people without iron or major weapons, successful hunting for meat is very unpredictable—very risky. There's a large element of luck in making a kill or scavenging a carcass. Even the best hunters may go weeks without success. So everyone can benefit from meat-sharing, even the most skilled. And sharing meat can be essential for the survival of the group. Without sharing, the group might not make it, and that accounts for the evolutionary factor. The groups that shared were more likely to survive, and they passed their willingness to share along to their offspring. The ones that didn't share would be more likely to die out without successfully reproducing.

If this hypothesis about sharing is correct, people will be most comfortable in settings where they can share, both contributing to what is created and being sure of receiving a share of the results. This isn't something that they think about: it's just a very deep part of the mind. There's a lot of

research in psychology showing that if you're not part of a group and not cared for, you'll never be a well-adjusted person, and you'll suffer a lot more stress and anxiety, with impact on your general health and survival and also your ability to reproduce.



The graph above shows standardized differences on the following measures:  
 Crime: victimization (C1), policing (C2), confidence (C3), feeling of security (C4), domestic violence (C5)  
 Education: level attained (E1), age leaving school (E2), truancy (E3), expected truancy (E4), post-school training (E5), perceived importance of education (E6)  
 Health: physical health (H1), emotional health (H2)  
 Social Environment: perceived gap between rich and poor (SE1), helpfulness of authorities (SE2), supportiveness of social networks (SE3)  
 Social Participation: membership of clubs (SP)

### The study

To test this hypothesis in modern times wasn't easy. There aren't many modern settings where there is a lot of sharing, and I wanted a place where I could validly compare sharing with non-sharing social environments. Robert Oakeshott suggested Imola in Northern Italy, where there is a long tradition of cooperatives and where there are nearby towns that don't have cooperatives.

Imola, with about 60,000 people, was ideal because the cooperatives there have been around for more than a generation, allowing plenty of time for the effects of sharing to be felt by the population. And of course, I needed lots of social data from the towns to test this hypothesis, so it had to be somewhere that kept good records. Imola is approximately 30 kilometers from Bologna in Northern Italy, and it is believed to have the highest proportion of co-operatives in Italy. To compare to Imola, I identified two nearby towns: Sassuolo, which is

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.

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smaller than Imola (approximately 40,000) and slightly further away from Bologna, and Faenza, which is larger (approximately 80,000), and very close to Imola. Both control towns are in the same province as Imola and both appear equally prosperous and similar in the level of industrialization. This is one of the most prosperous areas in all Europe.

I also found a detailed mortality study conducted by the health authorities in Ferrara, a city of approximately 136,000, 55 kilometers north of Imola. Apart from its size, it fits four of the criteria for comparison: it is in the same political province and the same geographical area, it is similarly industrialized and it is not near the coast.

Published statistics were collected on mortality, education, voting rates, blood donation, population by age and sex, household size, employment, and other details. In addition, local health boards, school boards and police were asked for data. A postal survey of 500 households in each town yielded a 15-17% return. The survey asked people about their perceptions of differences between rich and poor, the number of people in their social network that they could turn to in times of difficulty, the helpfulness of authorities, security from crime, expectations about domestic violence, confidence that crime was controlled, educational qualifications, children's rates of truancy from school, membership in voluntary associations, training, and other questions. To compare the three towns, samples from each town matched for age and sex were created from the postal survey returns, to see if similar people had similar responses.

### The results

A pattern quickly emerged. Imola was a better place to live than Faenza, and Faenza was more comfortable than Sassuolo. In having a feeling of equality, belonging to groups, donating blood and other items, Imola was the most socially supportive community. There were a few exceptions to the pattern, but not many, and the overall pattern was clearly in line with the proportion of co-operatives. One of the exceptions had to do with the feeling that education was important for happiness. Imola respondents were the least likely to feel that education was necessary for happiness, and Sassuolo respondents were the most likely to feel education was necessary for happiness. But the Imola people, on the

average, have a full year more education than the Sassuolo people. Upon reflection, I think the pattern is consistent, but not as I expected: the Sassuolo people are feeling the most anxiety about the future, and so they feel the greatest need for education. But schools are social institutions, and the Imola people are more at ease with their social environment, so their kids are happy to stay longer at school.

Other measures used to compare the towns came from a national survey of medium sized towns, carried out by ISTAT, the Italian national bureau of statistics, in 1991. This compared data on various measures from 67 towns, including Imola and Faenza but not Sassuolo. Some of the statistics suggest that people in Imola are less competitive in consumption than other towns—they are less likely to buy fancy cars or use a lot of electricity, and they are a little more likely to save.

To compare mortality in Imola and Sassuolo (there was no data available for Faenza), I had to use some sophisticated statistics, because Sassuolo's population was quite a bit younger than Imola's, but what they revealed was that Imola's mortality rates were lower on an age-adjusted basis over the whole six year period for which they could be compared, and a similar pattern appears for Imola when compared to Ferrara. A big factor in this difference is that Imola's rate of cardiovascular mortality is significantly lower than that of Sassuolo. Sharing seems to be better for the heart.

Imola also came out the best on blood donations, with 6.0% of the Imola population giving blood, compared to 3.0% in Faenza and 2.7% in Sassuolo.

Of course, this is just one study of one area in Italy, and a lot more work has to be done to replicate these results before we can come to firm conclusions, but it is very exciting to see that working in the egalitarian environment of an employee-owned company seems to help the entire community towards a better, safer, and longer life.

*David Erdal was formerly CEO of Tullis Russell, an employee-owned company in Scotland. Erdal received his M.B.A. from Harvard, and a Ph.D. in psychology from the University of St. Andrews, Scotland. He is now director of a trust for promoting employee ownership. OAW*

## Become A Friend of the Center

The OEOC is midway through its fifteenth year of service to people like yourself who are interested in employee ownership. As a reader of our newsletter, *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 the needs of others.

Over the last 14 years, we've helped more than 11,500 workers buy 57 companies. In 2001, we ran 15 different training programs for the 60 companies of Ohio's Employee-Owned Network. 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-root 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 individual contribution will help the Center to continue serving the community.

Checks should be made payable to: **KSU Foundation / OEOC**

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



# Employees Buy Appleton Papers

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In Ohio, the roughly 350 hourly employees at the Appleton's West Carrollton plant are members of Paper, Allied-Industrial, Chemical and Energy Workers International Union (PACE) Local 5-266. "We're excited to be involved in the buy-out because it gives our members a say in their future and it also gives them an opportunity for a nice return on their investment," says Larry Richardson, PACE representative servicing the local. Richardson added, "Faced with the possibility of an investment group buying the company, we felt employee ownership was the better alternative."

Appleton Papers is a billion-dollar company that holds about 60 percent of the world market for carbonless paper, which is used for checkbook registers and credit card receipts among other things. It is also a worldwide market leader in thermal papers that are used to print items like lottery tickets, airline tickets and sales receipts. The company has the West Carrollton facility; a pulp and paper mill in Roaring Spring, Pennsylvania; a converting plant in Appleton; and a small micro-capsule operation in Portage, Wisconsin. With the exception of the Portage facility, which is non-union, all the plants are organized by PACE, representing about 1,500 workers.

To make the deal go, the employees, both management and non-management, came up with a \$107 million down payment by electing to transfer some or all of their individual 401(k) accounts to buy company stock. The employees

hold all the equity in the company. The other \$700 million needed to finance the purchase was leveraged. According to news reports, over 90 percent of the employees participated and turned over an average of nearly 75 percent of their 401(k) balances. The union members are also covered by a defined benefit pension plan.

Stability is very important to the success of any venture. In the case of Appleton Papers, a considerable degree of stability was provided by the union's decision to renegotiate contracts at all three locations together. The new 5-year labor agreement gave lenders the comfort level they needed to provide the rest of the financing.

The new employee-owned company was formed as an S-Corp, which essentially means that it does not have to pay corporate income taxes. Taxes will be paid by employee owners when they receive gains from selling their stock or from dividends. No corporate income tax means that the company will be able to pay off its debt more quickly. It also gives the company more opportunity to invest in developing new products, which is part of the long-range game plan given a shrinking market for carbonless papers.

According to Bill Van Den Brandt, Manager, Corporate Communications, "Appleton Paper has had a participative culture for the last 10-15 years, so it was relatively easy for employees to make the transition to employee ownership, to think and act like owners." OAW

## Employee Ownership on European Union Agenda and Employee Consultation Required

**G**overnments of eight of fifteen member states of the European Union have joined to request the European Commission to support and promote employee ownership in the EU.

The implementation of employee stock ownership in Europe has gone forward unevenly up to now. There has been no overall EU policy, and the members have taken quite different approaches, from the fairly warm embrace of the United Kingdom to cold indifference in Sweden (until recently). Different countries have emphasized different types of ownership. In Spain and Italy, cooperatives; in the U.K. and Ireland, direct stock ownership; in Germany, employer-initiated savings and stock plans. Belgium has just passed its own model law.

Companies and governments are becoming more aware of the potential benefits to national economic growth and the business flexibility that comes with sharing economic risks through a variable wage, the promise of better relations between labor and management, the prospects for higher business productivity, and better retention of employees.

The European Union has been studying the issue for several

years through the PEPPER project (Participation by Employed Persons in Profits and Enterprise Results). Summaries of these studies are available on the internet at <http://cog.kent.edu>.

A November 23 meeting called by the European Federation of Employee Shareholders and hosted by the Belgian Presidency of the EU was the first time all three elements—governments, labor confederations and business groups—have agreed on principles for action.

If the Commission accepts the recommendation, the next step will be consultations to discuss and develop model regulations for all EU members.

In an unrelated action in December 2001, the European Union finalized a directive requiring European companies (whether employee-owned or not) to consult their workers on all significant decisions, including everything from changes in work organization to corporate restructuring. The new directive also requires companies to share financial information with employees. This action, European Union social affairs commissioner Anna Diamantopoulou told the *Financial Times*, "sends a political signal that companies must respect their workers at least as much as they respect their shareholders." OAW



# Securing the Future of Subchapter S ESOPs

Stephanie Silverman and Keith A. Yelinek

*Editor's Note: After federal tax law was changed to allow ESOPs to be Sub-S corporations in 1996, a number of employee-owned companies converted from C corporations to S corporations. Other employee-owned S-corporations have been formed since the law went into effect. As S corporations, they enjoy a considerable tax advantage: they pay no corporate income taxes. Tax is due only when the employee owners sell their stock and take cash or when they receive cash dividends from their stock. So far, the ESOP Sub-S corporations have successfully fended off proposals to eliminate their tax advantages. But although a legislative battle was won, the war is not yet over. Read on for the story of efforts to preserve the Sub-S tax benefits.*

In 1996, the rules for ESOPs and Subchapter S companies were revolutionized. After a multi-year lobbying effort, Congress adopted a series of Sub-S corporation reforms, including one that would permit Sub-S companies to be ESOP-owned. This successful legislative effort came about through the efforts of Liberty Check Printers, a small employee-owned printing business in Mounds View, Minnesota. However, in 1997 Liberty and its lobbyists were called upon again to clarify the original legislation so that a Sub-S ESOP would not be subjected to the unrelated business income tax (UBIT) at the ESOP level. This new law became effective on January 1, 1998.

Since then hundreds of companies have taken advantage of this legislation to become Sub-S ESOPs. Today, there are perhaps 750 or more Sub-S ESOPs across the country—in industries ranging from printing and publishing to construction and community banking—and many more companies are considering becoming Sub-S ESOPs. The Sub-S ESOP structure has substantial advantages for employee-owners: it provides a major retirement savings vehicle in this era of fiscal uncertainty, it provides a more effective way for companies to meet their repurchase obligations, and the tax savings are a real help in growing companies in an increasingly competitive market place. In effect, the Sub-S corporation avoids double taxation on corporate income. Income is taxed just once, when the individual shareholder takes it in a sale of stock or receipt of a cash dividend. Under the 2001 tax reforms, this will be at a lower rate than corporations pay.

In spite of their value to employees and employers alike, there is a large group of naysayers in the Washington bureaucracy who would like to see the growth of Sub-S ESOPs severely limited. The naysayers' fundamental dislike of the Sub-S ESOP structure comes from the fact that the tax on corporate earnings is deferred. It is paid not at the time the earnings are booked, but rather when the employee-owner participants liquidate their holdings in the company, usually at retirement.

The danger to Sub-S ESOPs is real. Over the past three years, the naysayers have authored a series of proposals to eliminate or severely restrict employee-owned S corporations, and the companies have fought to defeat them through aggressive legislative involvement.

The initial threat came in 1999 when the Treasury Department issued a recommendation as part of the President's annual budget proposal that would have eliminated Sub-S ESOPs altogether, by reinstating the UBIT on ESOPs. In response a group of Sub-S ESOP companies came together and created a new organization dedicated exclusively to protecting the interests of

Sub-S ESOP companies—now called the Employee-Owned S Corporations of America (ESCA). Initially 10 companies banded together with the lobbyists who originally fought to establish Sub-S ESOPs, waging an ad hoc legislative campaign in 1999 to build up opposition to the Administration's proposal. In spite of the odds, ESCA's campaign to preserve S-corp ESOPs succeeded in defeating the President's budget proposal.

That did not stop the naysayers from trying again, though. Last year, sensing that the Sub-S ESOP community had built up some political momentum, the Treasury Department put another, slightly less threatening proposal on the table. That initiative would simply have made Sub-S ESOPs unavailable to many employee-owned companies, by narrowing the eligibility criteria. The proposal would

## *The Sub-S ESOP structure has substantial advantages for employee-owners*

not only limit the creation of future Sub-S ESOPs, but would have undone many that formed since January 1, 1998.

ESCA and its member companies' response was an all-out legislative campaign. Now with about 85 ESOP company and professional members, ESCA designed and conducted a lobbying program to pass new anti-abuse rules for Sub-S ESOPs. The rules make it impossible to establish a Sub-S ESOP if the benefits of the structure do not redound to a broad base of employee-owners. By putting these rules into place, Sub-S ESOPs would no longer be vulnerable to the accusation that they can be abused to create disproportionately great benefits for small groups of shareholders and their families, or for outside financiers. Through ESCA's lobbying process, Sub-S ESOPs themselves are defining what is and is not abusive, taking away from Washington naysayers the ability to set the criteria in a way that would damage employee ownership for Sub-S companies.

Over the last Memorial Day weekend, ESCA saw its third legislative victory in three years. ESCA's proposed anti-abuse rules—named for Senator John Breaux (D-LA) and Congressman Jim Ramstad (R-MN), the leading Congressional advocates for Sub-S ESOPs—were included in the pension reform section of the massive 2001 tax rate reduction package. This accomplishment demonstrated the substantial political reach and effectiveness of the Sub-S ESOP lobbying community, in spite of its relative newness—something directly linked to the activism of the members of



ESCA, their allies in Congress and in the industry.

While the passage of the Sub-S ESOP anti-abuse rules was a legislative victory, other challenges remain.

The critics of Sub-S ESOPs are still in key positions in Congress and the Administration, and many others in industry as well as academia would also like to see this structure vanish. The key to responding effectively to future attacks is for Sub-S ESOP companies to remain coordinated and involved in the political process. Although the current Treasury Department is somewhat friendlier to Sub-S ESOPs, ESCA and its members will be active in the regulatory process, to see that regulations implementing the new laws help rather than limit Sub-S ESOP companies. ESCA will be deeply involved in regulations to be issued as early as 2001, sitting at the table for Sub-S ESOP companies in this process.

In addition, ESCA is supporting a number of other legislative initiatives that will benefit Sub-S ESOP companies—including a proposal to eliminate the built-in gains tax on the assets of companies that convert from C to S status; reforms to Sub-S rules to allow new classes of debt and equity; and legislation to reverse recent private letter rulings which make the repayment of Sub-S ESOP debt particularly costly. ESCA is active in these efforts for several reasons. First, these provisions are intended to create new benefits, or remove old impediments, for Sub-S ESOPs, boosting their bottom lines and enhancing the companies' abilities to generate added savings for their em-

ployee-owners. Second, they are measures that have been put forth by the friends of Sub-S ESOPs in Congress, and it is critical that the Sub-S ESOP community work to help these key allies. Third, continued participation in legislative efforts like these enables ESCA to stay engaged in the Washington political process, building up alliances and a foundation of support that is key to the future of Sub-S ESOP policies.

The future for Sub-S ESOPs is very bright, so long as Sub-S ESOP companies and those who seek to implement this structure remain alert, engaged, and active in the political process. While it is ESCA's intent to continue to be involved in the political process at the highest levels, the burden of assuring the survival of this important new form of employee ownership must be shared on a wider basis. The political process, after all, is where Sub-S ESOPs were born, and it is where they must compete for many years to come.

*Keith Yelinek is an employee-owner of Liberty Check Printers (Mounds View, MN), the first Sub-S ESOP in America. Yelinek helped launch and now serves as vice chairman of the Employee-Owned S Corporations of America ("ESCA"). Stephanie Silverman is President and Executive Director of ESCA, as well as the S Corporation Association, both in Washington, D.C. Information about ESCA is available from Silverman, at 202-496-4976, by mail at Suite 600, 1050 17<sup>th</sup> Street NW, Washington, D.C., 20036 or by email at [ssilverman@yennstrategies.com](mailto:ssilverman@yennstrategies.com). OAW*

## New Congressional Scrutiny of Employee Ownership

**E**nron's collapse—the biggest bankruptcy in American history—wiped out about \$1.2 billion in employee equity in Enron stock in the company's 401(k) plan. As a consequence, Senators Barbara Boxer and John Corzine submitted new legislation that would require early diversification of employer stock in 401(k) plans and ESOPs. Is this a case of throwing the baby out with the bathwater?

Enron stock amounted to about 60% of all employee 401(k) holdings. The stock now trades at about 60 cents a share—down from more than \$80 a share in 2000 when it was a bull-market high-flier.

Why did the Enron retirement plan have so much company stock in it? The answer: the company matched employee 401(k) contributions with company stock. Employees weren't permitted to sell those shares until they turned 50. Enron also appears to have encouraged employees to invest their own money in Enron stock.

To add insult to injury, recent news stories report that top Enron executives sold their company stock while ordinary employees and middle level managers with Enron stock in their 401(k) plans were prevented from moving to other investments for crucial weeks while the stock value plummeted. The reason? The company had appointed a new administrator to manage the plan.

That's the subject of employee legal action.

The Enron 401(k) catastrophe provides ammunition for those who are not friends of employee ownership. They have some strong arguments. Concentration of stock in a pension fund is riskier than diversification. Moreover, Enron is not unique. Recent reports suggest that about 200 large companies make their matching contributions to 401(k) plans entirely in company stock, overloading their employees just as Enron did.

ESOPs and 401(k)s—both affected by the Boxer/Corzine legislation—are fundamentally different. 401(k) plans are designed to be diversified pension plans. Most companies sponsoring 401(k)s don't have another pension plan.

ESOPs, by contrast, are designed to invest primarily or exclusively in employer securities.

Thus, they put all the eggs in one basket. That's why they aren't a very good stand-alone pension plan. **Unlike 401(k) companies, most ESOP companies provide a second, diversified pension plan for employees.** In Ohio, for example, two-thirds of all ESOP companies have at least one additional pension plan.

Further, ESOPs achieve many other employee goals, including job retention and employee influence on company policy. Those are worth a lot here and now.

The Enron 401(k) debacle is a tragedy for Enron employees. But it's a poor reason for changing ESOP law. OAW

***The Enron 401(k) catastrophe provides ammunition for those who are not friends of employee ownership***



## Update: The Steel Crisis Worsens

Six months ago, the U.S. steel industry was clearly mired in a severe depression. Now, if anything, the situation has gotten progressively worse and has become, in the words of the *United Steelworkers Basic Steel Industry Conference*, "the most profound crisis ever faced by the American steel industry."

The last time we looked, we counted 18 bankruptcies filed since December 1997. Now, that has jumped to 29 companies. While some of the plants continue operating under bankruptcy protection, twelve plants have closed, costing 31,000 employees their jobs. Another 6,500 jobs are on the brink at LTV Steel. But that's only part of the story. When large numbers of jobs are lost, it generates a ripple effect. As an example, the closing of LTV's Cleveland Works, according to an analysis by the Greater Cleveland Growth Association, would result in 3,200 jobs in Cleveland being lost plus an additional 20,000 jobs statewide.

The root causes of the crisis remain the same: unfairly traded (dumped) imports, currency devaluations and foreign over-capacity that have kept prices at 20-year lows and prevented the profitable operation of many American steel plants. America's steel factories are also disadvantaged in the handling of the cost of retirees' benefits. American industry must pay for such "legacy" costs, but many of our foreign competitors finance those costs from the public budget.

Which brings us to the big question: How does this industry get turned around? How is it going to survive? While the industry got into trouble in a hurry because of events triggered initially by the Asian financial crisis, it will not get out in a hurry.

When we last wrote, the President was requesting a Section 201 investigation in June. The investigation by the U.S. International Trade Commission found that imports had injured the domestic steel industry. Several weeks later, the Commission made its recommendations, calling for higher tariffs on products

comprising some 80 percent of the industry. The President has until sometime in February to follow the USITC's recommendations, to impose some other remedy, or to do nothing at all. We noted in our previous article that while the initiation of a Section 201 was a welcome change of policy, it was not a quick fix and that it could take up to 8 months for the industry to see action. It looks like it's going to take the full 8 months.

On the legislative front, Congress is still debating the U.S. Steel Revitalization Act which would legislate a steel import quota, impose a tax on steel shipments to fund retiree "legacy" costs, improve the Steel Loan Guarantee Program and promote industry consolidation while encouraging the retention of workers and domestic steel production capacity. But will initiatives be developed in time to save the remaining industry? Despite the fact that a majority of the members of the House signed on as sponsors of H.R. 808—the Steel Revitalization Act—the legislation, which was introduced in March 2001 and assigned to Committee in April, has gone no further. In fact, it does not appear that there have even been any hearings on the bill.

Whether or not the industry eventually sees any relief from imports or the legacy cost issue, it looks as though there is going to be substantial consolidation within the domestic steel industry. But without relief on these issues, the industry may well find itself once again faced with the same problems a little further down the road.

*In the meantime, the National Steel/Aluminum Retention Initiative continues to provide initial technical assistance to distressed steel and aluminum companies and their suppliers exploring employee ownership. NSARI, administered by the OEOC, has put together a network of non-profit and public sector partners with experience in the employee ownership approach to job retention. To get more information, visit our web site: [www.kent.edu/oec/NSARI](http://www.kent.edu/oec/NSARI). OAW*

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# Crocus Fund Grows, Renews Winnipeg

Zach Schiller

*Since 1995, OAW has been following the progress of the Crocus Investment Fund, one of more than 20 labor-sponsored investment funds in Canada. Crocus has invested in 60-odd companies, helping to keep thousands of jobs in its home province of Manitoba since its creation in 1993. In mid-November, a delegation of six Ohioans visited Winnipeg to get a first-hand look at Crocus and how it operates. The fact-finding group included John Logue, Director of the Ohio Employee Ownership Center; Steve Clem, government and labor liaison officer for the OEOC; Ken Thomas, a member of the Board of Trustees of the Ohio Public Employees Retirement System; Gary Steinbeck, a Sub-District Director in United Steelworkers District 1; Gary DiCeglio, Director of Compensation at the Ohio AFL-CIO; and Zach Schiller, senior researcher at Policy Matters Ohio, a Cleveland research institute. Here are Schiller's observations.*

Our tour began, aptly, at one of Crocus's investments, a downtown Winnipeg restaurant. The name was corny—Pasta la Vista—but the food was good. More to the point, the group that owns it has boosted employment at this and its other various restaurants from 150 to 500 since Crocus invested and is anticipating sales reaching \$20 million this year.

That was only the first display of how Crocus has become a significant player in the Winnipeg economy. Crocus says it is the biggest provider of venture capital to Manitoba businesses. While we were there, it cosponsored with the major local newspaper a conference on regional economic development that included some of the area's movers and shakers. The conference discussion guidelines, drafted by Crocus President and CEO Sherman Kreiner, included an explicit concern for development that leaves no one out—a theme unlikely to be a key concern if a similar conference were held in the United States.

There are two sides to the Crocus story: how it gets its money, now at \$175 million (all amounts quoted here are in Canadian dollars) from 30,000 individual investors, and how it invests it.

Most Americans would be somewhat familiar with the means Crocus uses to raise its funds: it's much like a 401(k) plan. Investors putting money into Crocus aren't taxed up to a maximum \$5,000 annual contribution. The real kicker, though, are tax credits of 30 percent, split by the federal and provincial governments. Thus, a Manitoban investing \$5,000 would get rebates of \$1,500, apart from any actual return on the fund itself. Investors must keep their money in Crocus for at least eight years, giving Crocus a source of patient capital. Everyone who has gotten to the end of that period has more than doubled the money invested, says Crocus Marketing Director Bob Jones.

Remarkably, only labor-sponsored funds are eligible for the tax credits. We won't recount the whole history of Crocus here. It has been described in earlier OAW articles (Summer 1998, Summer 1999, Summer 2000). The fund grew out of labor's response to capital flight, first from Quebec and later Manitoba.

Besides the passage of key legislation enabling the tax credits and labor-sponsored funds, Crocus also raised start-up capital from the provincial government (\$2 million) and early investments from the Manitoba Government Employees Union strike fund, the Bureau of Workers Compensation, the Garment Workers' pension fund, and the Manitoba Blue Cross. This gave Crocus initial funds to invest before it had a significant flow of money coming in from individual investors. If a similar labor-backed fund were created in Ohio, as the Ohio Employee Ownership Center is exploring, it might also depend on investments by pension funds. Kreiner pointed out that the tax credits crucial to Crocus's success could be given on a municipal tax—for instance, the

city of Cleveland's payroll tax.

Winnipeg, the capital of Manitoba, has more than half the province's 1.1 million residents. The economy is diversified, without the ups and downs of oil-rich Alberta or manufacturing-dependent Ontario, and about a third of the workforce is unionized. However, when Crocus started, the area had seen significant loss of local businesses, and suffered from a lack of equity capital to invest in small and mid-sized area companies.

Through its investments, Crocus looks to back socially responsible businesses, keep them in Manitoba and help them to expand. It has a preference for employee ownership, and invests in companies that it believes can act as leaders in their sector, improving employment and environmental practices.

The fund tries to pick industries that are growing, will deliver a return of 20 percent or higher, and might otherwise be sold to larger national operators. It limits its investments in high-tech or companies in need of a turnaround to no more than a quarter of its total. Only two of its investments have gone sour, most notably a strawboard plant outside Winnipeg that never operated efficiently.

Crocus invests between \$250,000 and \$5 million at a time, but that goes only to about one of every 25 companies that submit their business plan. After it has gone through its initial financial review and drawn up terms for a possible deal, Crocus does a social audit, reviewing the health and safety, environmental and labor practices of its would-be investments.

Crocus doesn't screen out companies because they are in certain industries, as some U.S. mutual funds exclude tobacco or gun companies from their portfolios. Rather, the idea is to invest in the best company in a sector—the one that can raise standards in industries even though trade unionists or environmentalists might hesitate to support them. The legislation permitting the fund's creation specifically prohibited limiting investments only to unionized companies, and unionized businesses now account for about eight or nine of Crocus's total.

The fund has invested in a telemarketer, a security service, and a hog farming operation. In each case, Crocus believes the company can improve industry standards, or has already done so. The telemarketer offers better hours and working conditions than do its rivals, Crocus officials say. Cheryl Crowe, who does the social audits, studied the hog industry for months before Crocus invested in Enterprise Swine Systems. Crocus says that the company has injected \$50 million in capital into the community and is environmentally conscious. It spent \$40,000 on a liner for a lagoon, for example.

The security firm, the Inner-Tec Group, agreed to an 8.5 percent increase in a recently negotiated labor contract with the



United Food & Commercial Workers. CEO Michael Menzies, who talked with us during our visit, is consciously looking to reduce turnover and training costs, appealing to customers who are willing to pay more for a higher-quality security operation. Menzies also wants to establish an employee stock ownership plan, which he thinks will attract employees, set Inner-Tec apart and be a selling point to potential customers. This likely will lead to a loss of some "commodity," low-priced business, Menzies volunteers, but higher profit margins.

Susan Hart-Kulbaba, a former president of the Manitoba Federation of Labour and UFCW official who now is Crocus director of labour services, originally opposed the investment. She believed that a low-wage employer like Inner-Tec wouldn't be able to support either a return for Crocus or an employee stock ownership plan. However, now she is convinced that Inner-Tec, the leading security service in Winnipeg, can help raise industry standards.

Crocus and the Continuing Education Division of the University of Manitoba have jointly established a certificate program in participative management at the university, a 200-hour course of study for middle managers who see workforce development as vital to their business. A key component of the program is the development of a company-specific action plan.

About a quarter of Crocus investments have employee stock ownership plans. The fund sees it as a way to anchor a company firmly in its community and provide a good strategy for Crocus to exit its investment, as venture capital companies eventually do to provide a return to their shareholders. So far, Crocus has sold a total of three of its company stakes; in one case, where employees had an ownership position, they later got a return when it was bought by a French company.

Investing in the Crocus fund should be done in addition to a regular pension plan, says Rob Hilliard, president of the Manitoba Federation of Labour and chair of the Crocus board. Unions in Manitoba can win card-check recognition, and that hasn't been an issue at companies Crocus has invested in. A couple of unions philosophically oppose the notion of a fund like Crocus, and at every MFL convention, there are some questions on the floor about Crocus investments. However, most of that is over, says Hilliard. Forty percent of Crocus shareholders are union members, demonstrating their support. Hilliard's biggest concern about Crocus is if something should happen to Kreiner, a key ingredient in the fund's success. Hilliard is working on a line of succession.

Crocus's most controversial investment, at least for labor in Manitoba, was in Carte International, a maker of transformers for the utility industry. The investment also sharply outlined the issues that can emerge when labor enters the investment arena.

Crocus saved 180 Carte jobs in Manitoba when it agreed to take a majority stake in the company. The investment fund had only a few days to decide whether it would join management to buy the company. Otherwise, it likely would have been sold to a U.S. company that probably would have shut down Carte's two Manitoba plants.

Financially speaking, Carte has been a great investment for Crocus. However, when the United Steelworkers went on strike, seeking better wages after a long freeze, both management and labor expected Crocus to back them. At one point Hilliard, a steelworker himself, joined a picket line outside Carte. But Crocus believed if it threw the CEO out, it would lose crucial business know-how and contacts without which the firm wouldn't survive.

The strike lasted five months. Eventually, Crocus's representatives left the board of directors. The fund very rarely takes a majority position, as it did in Carte.

Though the two sides were able to reach an agreement without a strike at Inner-Tec, there, too, the union expected that Crocus would help it win higher wages in negotiations. It has been hard for people in the labor movement to accept that Crocus can't tell the owners what to do, said Hart-Kulbaba. That would also make it impossible to line up future investments, she said.

The lesson: Though it is a labor-sponsored fund, unions shouldn't look for Crocus to achieve what has to be negotiated at the bargaining table. The fund is just one means labor is using

to achieve its goals in Manitoba. A recent book on the fund and the labor movement (*Investing in Our Future, Building on Our Strengths: The Crocus Investment Fund and the Manitoba Labour Movement*) spells out that Crocus supports labor bargaining power by increasing employment levels and reinforcing the legitimacy of the labor movement. However, it states, "the labour movement retains responsibility for organizing unorganized workers and collective bargaining in Manitoba."

Crocus's long-term vision is to knit together its growing number of investee companies to support one another. For instance, they might all buy from a particular member of the group or create their own bank. Right now, CEOs get together quarterly for meetings.

Meanwhile, Crocus itself has become no small enterprise, with 40 employees housed in a stylish home in a downtown building newly renovated for Crocus and some local arts organizations. The firm is actively involved in downtown redevelopment, investing in a project that would replace a vacant department store with a new arena. "Part of our mission is to be an economic development engine for Manitoba," said Kreiner. Financial returns are only part of the bottom line at Crocus. oaw



Ohio group visits Manitoba's Crocus Fund. From L to R: Steve Clem, OEOC; Susan Hart-Kulbaba, Crocus Fund; Sherman Kreiner, Crocus Fund; Gary DiCeglie, Ohio AFL-CIO; Gary Steinbeck, United Steelworkers of America; Zach Schiller, Policy Matters Ohio; Rob Hilliard, Manitoba Federation of Labour; John Logue, OEOC.



# The Power of NEON: YSI's New Employee Orientation Network

**W**hat does a model new employee orientation process look like and what difference does it make to the company?

Yellow Springs Instrument (YSI) specializes in testing instruments to meet a variety of environmental and health needs. YSI is headquartered in Yellow Springs but has additional facilities and affiliates in the U.S., Europe and Asia. There are 209 employees in Ohio, and 370 worldwide.

Its ESOP was established in 1983 and the firm is 48% owned by 320 employees.

A decade ago, YSI established its New Employee Orientation Network (NEON), committing a large investment in employee time to introducing new employees to the company.

Sheila Henderson, the HR Staffing/Training Coordinator at YSI, is chief recruiter for the company and administers the NEON program. Her responsibilities include recruiting and retaining well-qualified employees and providing in-house training for all of YSI's employee-owners. Karen Thomas interviewed Henderson on November 12, 2001.

## What is NEON?

**Henderson:** NEON is a two-week process in which we introduce new employees, as a group, to our organization.

We assign a buddy to each new employee. We ask each new employee to fill out an information sheet about themselves which we then circulate on neon-colored paper, to fit our NEON acronym.

## Why did you start the New Employee Orientation Network?

**Henderson:** We began NEON ten years ago as a way to help new employees develop a sense of loyalty and commitment to YSI. Malte von Mathiessen had great vision for what could be done with ESOPs when he became our CEO in 1987. He got people interested in doing all the things we now do. NEON plays into our whole ownership culture.

## How does NEON fit into your recruiting process?

**Henderson:** NEON is an extension of our hiring process. We are a team-oriented organization and our whole hiring process reflects "us" as an organization. Applicants are interviewed by three or four people at one time because we want applicants to know that the hiring decision is made by a team of folks who work together and that we use a team approach at YSI.

## What do new employees learn in NEON?

**Henderson:** We want them to know what is going on at YSI, though the content of the orientation is not as important to us as helping employees feel a part of our organization. We want them to feel free to ask questions.

The first day we get acquainted. We talk about our history, our core values, where our affiliates and wholly owned subsidiaries are located, and the products that we make. Over the two-week process, each group of new employees meets for 2-4 hours daily on eight workdays. We discuss our ESOP, our 401K, and our standards for safety, ecological sustainability, and quality. Our marketing staff presents information about our customers and our products. We visit each manufacturing area and meet the people who build our products in each of our business units.

This morning the NEON group met with Malte and Rick, our CEO and COO, for forty-five minutes. The new employees introduced themselves and discussed their families, their backgrounds, how they got to YSI, and what they believe in. Malte and Rick talked about our company's core values and their visions for YSI.

We want new employees to get a feel for who the leadership of YSI is. It is important to us that employees feel comfortable talking with our leaders; not to only see them when there's a problem. It makes a real impact on new employees to sit down and talk with our CEO.

**Your NEON program is a big investment in time. Does this investment pay off?**

**Henderson:** Those who present information to the NEON groups see the orientation of new employees as an important part of their job. New people really like the process because they make contact with folks and get information. This costs a little time and money, but we have seen that results outweigh the cost. Where we see the impact is in attitudes about transferring within the organization; success at maintaining open communication and keeping a sense of community as the organization has grown and diversified.

## What's the role of a buddy?

**Henderson:** The buddy gives the real low-down: is it really like this at YSI or is this just the company line? New employees lunch with their buddies twice during that two-week period. Buddies often bring the new employees into their work units for lunch and invite other folks from the department, so others get to meet the new employee too.

## How do you match new employees with a buddy?

**Henderson:** I do this. A buddy has to be somebody who's been with YSI at least a couple of years, knows about YSI, and has a good attitude about the company. We don't want their buddy to be someone they will work with on a regular basis, so sometimes we pick their buddy from another business unit. If the new person works in administration, we may pick someone that's non-exempt to give a different perspective. This shows the new employees that everyone's job is important here.



*YSI Headquarters in Yellow Springs, OH*



**You mentioned the NEON information sheet. What is it?**

**Henderson:** The NEON questionnaire is an opportunity to make a connection. It's a way of making the workplace atmosphere more like a community. We try to pull information from people, based on what they want to share. We're not asking them to bare their personal lives. Some people share very little; others share a lot. It's whatever they're comfortable sharing.

For example, the last person we hired, a vice president and general manager of our life sciences group, wrote on his NEON: "I am a Michigan fan. Go Blue! Looking for people who want to play ping pong, and chess players. I'm looking for a challenge."

The information they provide helps other people in our company to learn about them and make connections based on common interests. We have friendly rivalries among sports fans. We have people teaching other people how to play guitar and who go skiing together. A lot of people share an interest in charitable work and volunteer in the community. Our Beaver Creek facility has adopted a nursing home.

There are all kinds of connections people make.

**What is YSI's turnover rate?**

**Henderson:** We've had a low turnover rate. But you know the world we're living in now, people don't stay. When I tell people I've been at YSI for 33 years, they are amazed!! We're not aiming to keep people forever, but we're concerned about the

quality of their experience and the quality of their commitment to YSI while they're here. We've had some people who have only been there a short time but who made a commitment and a contribution. They added value, and the NEON program played a very big part in that.



*Sheila Henderson speaking at a past Ohio Employee Ownership Conference*

**In what ways have you seen this happen?**

**Henderson:** We move people around a lot as they gain experience that can help in other units. People are very familiar with what's going on in other areas and feel that they can make a contribution.

**Have you changed NEON over the years?**

**Henderson:** Yes. Now our CEO meets each January or February with everyone who was hired during the previous year and talks with them about how their view of the organization has changed, and how well they feel acclimated to the organization. We call this NEON Tier 2.

This year we expanded into a global NEON, and we connect to our new employees worldwide through our intranet. Most of the people who work at YSI worldwide will never get to Yellow Springs to see the corporate headquarters, so we have pictures

and all kinds of information that provides a similar orientation to our global locations.

Each year we have a corporate-wide Global Summit. One emphasis is how YSI can become a global team with an ownership culture. NEON supports this focus. oaw

## NEON Schedule

### Week One

#### Monday

12:00 Noon – Cultural Orientation Lunch

#### Tuesday

8:15-9:00 am – Life Sciences Marketing

9:15-10:00 am – Tour in Life Sciences

#### Wednesday

8:30-9:00 am – YSI Environmental Marketing

9:15-10:00 am – Tour of YSI Environmental Manufacturing areas

#### Thursday

8:30-9:00 am – Ecological Sustainability Overview

9:00-9:15 am – Tour of Automatic Thermistor Manufacturing (ATM) area

#### Friday

Free Day

### Week Two

#### Monday

9:00-9:45 am – Meet Your COO

9:45-10:30 am – Tour of West Building, Research & Development, Information Technology, Production Development Model Shop, Disc Fabrication, Corp. Admin., PDM and Maintenance Building

10:30-11:00 am – Quality/Environmental Management System

11:00-11:45 am – Safety Training

11:45-12:30 am – Info Session

#### Tuesday

8:30-9:15 am – Tour of Metrology and Repair Center

#### Wednesday

9:15-10:00 am – Tour of Materials, Shipping & Other Functional areas in East Building

#### Thursday

9:30-10:00 am – Temperature Marketing

10:00-11:00 am – Tour of YSI Temperature facility

#### Friday

1:30-3:30 pm – Team Model Orientation and NEON Wrap-up



# Employee Ownership and

**W**here does the sense of individual and community well-being found by David Erdal in his study of towns in Italy (see page 1) come from? A hint at the answer to this question can be found here in Ohio. Employee-owned companies have well-established programs to help their communities and provide leadership for a variety of community projects.

## Helping Fire-fighters

Disaster struck New York City and Pennsylvania on September 11, and by September 13 Will-Burt sales manager **Dan Farster** was on the road to the site of the downed airliner in Somerset PA, hauling a Night Scan vertical mast and light tower with 9,000 watts of light. Earlier, local authorities in Pennsylvania confirmed that the firm's services might be needed at the crash site. **The Will-Burt Company**, based in Orrville, produces five models of light towers, including the Night Scan.

"As a supplier to the fire, rescue, and law enforcement markets, we are committed to support the men and women whose lives are on the line everyday protecting citizens," said Jeff Evans, President and COO. Will-Burt donated a light tower to the New York City Fire Department through The Fire Truck Fund: A Gift from the People of Greater Akron; and the firm's employee-owners gave direct donations to the families of NYC firefighters and police officers; the company matching donations 100%. The Will-Burt Company, which is 100% employee-owned by its 320 employee-owners, is a world leader in the manufacture of pneumatic telescoping masts.

A large box of batteries and boots were sent to New York City firefighters by **Reuther Mold & Manufacturing Company** and the firm's 80 worker-owners donated to The Fire Truck Fund.

"Reuther Mold's worker-owners were extremely generous in response to the September 11 tragedy", said **Tom Winslow**, RMM's HR Director. This year the company also donated \$15,000 in their annual giving campaign to United Way, the Haven of Rest, and Good Neighbors. The firm sponsors a barrel for Goodwill at their facility each holiday season and also sponsors participants in the annual American Heart Association Walk with pledges matched 100% by the Company.

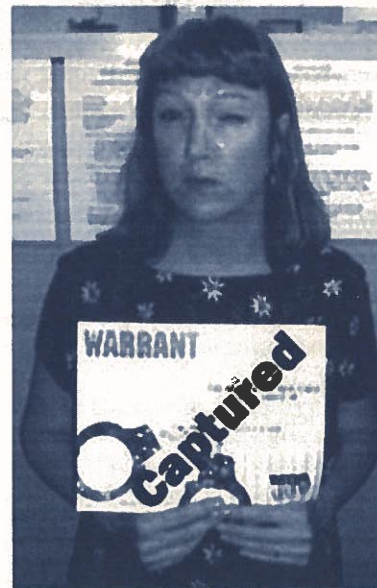
As **Sharon Companies** President and CEO **R.C. Coles** put it "Our employees are pleased to be able to give the gift of life." The firm, with 112 employees, sponsored a blood donor drive in December.

A chili cook-off, prepared by the managers at **ComDoc's** distribution center in Tallmadge, contributed to the \$1700 that ComDoc raised locally for the Fire Truck Fund.

**Concrete Technology Incorporated** set aside \$2,676 for ESOP Month gifts and donated these funds to September 11 relief instead. "Their response was in the CTI spirit," explained Accounting Manager **Melissa Nicholson**, "because each year our ESOP Communications Committee plans events that benefit our employees, our company, and our community."



## WANTED



## One-Eyed Becca

(Top Left) Night Scan vertical mast and light tower donated by the Will-Burt Company; (Top Right) Dave Fox Contracting, constructed for the donations to the Make-A-Wish Foundation; (Bottom Right) Chillicothe's CEO, Georgette Constantinou, Administrative Director of Psychiatry, Joyce Swords, Coordinator of the Parent Mentor Program, Mary Yeager, Vice President and initial funder of the Parent Mentor Program; (Bottom Left) Becca War and-Bail" charity event; (Center) (l to r) David Casenhiser, YSI Foundation Trustee; Susan Miller, YSI Foundation Trustee; Rosalie Catalano, YSI Foundation Trustee.



# Community Commitment



## Helping Families

During 2001 CTI's ESOP Committee hosted a blood drive at the Springboro plant, raised money for "Feed the Hungry" at Thanksgiving and "adopted" a family for Christmas. CTI's 230 employees own 100% of the firm, which is a manufacturer of architectural precast concrete exterior cladding. "We are currently setting our agenda for 2002 and plan to get even more involved in the community," added Nicholson.

The employee-owners at **Dave Fox Contracting**, a residential remodeling firm in Columbus, built a playhouse in 2001. The playhouse was raffled off with proceeds going to the Make A Wish Foundation. The twenty employee-owners of Dave Fox Contracting also donate to Habitat for Humanity. Their website contains more information on their community spirit: <http://www.davfox.com>

The tradition at **The Ruhlin Company** in Sharon Center, OH, is to adopt an organization or a family for the holiday. Ruhlin's 70 employee-owners adopted a closed playground this year. The firm, which specializes in general construction and construction management, collected money to replace the equipment and play area at a local battered women's shelter, and will provide the labor and equipment to redesign and upgrade the site with a large sand box, new swing sets, tetherball, and a basketball court. "Our company and employees give generously to our holiday projects," explained **Gabrielle Kline**. "This year's project is especially exciting because we will be impacting many children for several years to come." The Ruhlin Company is 60% employee-owned.

"We have a tradition here at **Joseph Industries** that started in the 1980s," said **Lucy Zauner**, "through our Helping Hands group we reach out to share with families whose holiday season needs a helping hand. We raise money through raffle fundraisers throughout the month of December supported by our suppliers, local merchants, and all our 65 employee-owners who purchase the raffle tickets. We also collect food and toys. We typically provide six families with a holiday dinner, a pantry full of food staples, and gifts for the children." The 100% employee-owned firm is presently housed at their new headquarters in Streetsboro.

Christmas Baskets are a tradition that dates way back at **Xtek**, and it is a tradition that is entirely employee-driven. Led by Christmas Basket guru, **Kim Donnelly**, employees collect money, buy food and other goods, assemble the baskets and deliver them. Management does not get involved at all except to match what the employees donate. The Cincinnati firm's 310 employee-owners produce gears, crane wheels, geared couplings, and forged steep rolls, and they also fund the Xtek Foundation which gives about \$90,000 each year to area non-profits such as United Way, the Fine Arts Fund, community funds, and educational institutions.

## Helping Kids

The employee-owners of **Kraft Fluid Systems** go to Jail and Bail, a fundraiser for Camp Cheerful, a summer camp for

ny to the New York City Fire Department; (Top Right) Sean Laukert, Hector front door post and railing of the playhouse (in background) to be raffled off to the Medical Center of Akron staffers (l to r) William Considine, President & Developmental Pediatrics and advisor to the Parent Advisory Council, dent of Patient Services, and Riley Lochridge, President & CEO of ComDoc eptionist at Kraft Fluid Systems, "mugs" for the camera during their "Jail- Gayle Rominger, Vice President and General Manager, YSI Environmental; m Patterson, OSU Board Trustee.



physically and mentally challenged children. Employees are arrested at work and taken to jail at the camp where they raise their own bail from calls to employees, friends, family and community businesses. Only after raising bail can they return to work. A team of Kraft employees competes each year in the Strongsville Education Foundation "World Series of Trivia Contest" to support Strongsville schools. Some of Kraft's 45 employees participate on the World Series team and others help raise about \$15,000 each year for local schools.

### A Community Service Innovation

ComDoc partner Joyce Swords launched the Parent Mentoring Program at Children's Hospital Medical Center of Akron, working at the hospital for 20 hours of her 40-hour workweek for two years, with ComDoc's full support. ComDoc President Riley Lochridge liked Swords' idea and the funds to cover her work at the hospital came from contributions by ComDoc and other donors who Lochridge contacted. Swords' idea—to give parents of children with special healthcare needs someone to talk to who knows how the hospital works and can understand what the parents are going through—was inspired by her own daughter's courageous battle with leukemia and the support other parents provided her. Now the program has twenty trained mentors and a new coordinator. "Dreams can come true," said Joyce, "with the help of many people who believe in your dream."

### Helping Wetlands and Rivers

Two community projects spotlight how YSI Incorporated supports its corporate purpose of "providing innovative technology solutions to sustain the environment and enhance life" through education and community involvement.

The YSI Foundation, the philanthropic arm of YSI Incorporated, works with and supports many different community projects, especially those that are close to the company's mission on enriching human life and the environment. The foundation pledged \$200,000 towards a \$2.8 million project to build the

Wetland Research and Education Building located at the Olentangy River Wetland Research Park on Ohio State's campus in Columbus. "The center really supports a lot of what YSI is doing in ecology and environmental sustainability," said Susan Miller, a trustee of the YSI Foundation.

The center will feature wetland sensors, water quality and quantity monitoring systems, "swamp cams," and laboratories. Information from the monitoring systems will be on view for visitors and also go over the Internet for study around the world.

YSI also supports the Children's Water Festival, an annual environmental science workshop for 2,500 students at the 4th-5th grade levels. The Festival is held on the University of Dayton's campus early in May. The primary sponsor is the City of Dayton Water Department, with leadership from Miami Valley Earth Central and the Well Field Protection Fund Board. The event is designed to increase children's awareness about groundwater, while stressing the importance of responsible action, use, and protection of all our Earth's resources. YSI has an employee-owner on the planning committee, staffs the adult registration booth, and puts on workshops and exhibitions. At the 2001 festival, YSI's Chris Knickerbocker taught "Clues From Cabbage", a workshop on cabbage juice as a natural indicator to estimate pH. YSI's Yolanda Stickle taught about the kinds of things found in water and how water is tested.

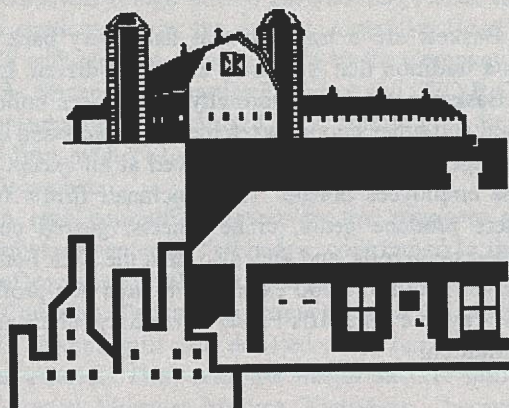
YSI, which has 320 employee-owners, is headquartered in Yellow Springs.

### Supporting Entrepreneurship and Education

Will-Burt employees raise money and teach entrepreneurship and applied business concepts for the local Junior Achievement organization. In addition, the company supports college tuition for the dependents of employees and funds scholarships at the University of Akron's Wayne College.

YSI supports college scholarships for employees' dependents and other students at local high schools and the Women in Engineering Scholarship fund at the University of Dayton. oaw

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# How to Manage an ESOP Firm to Success: *The Real World of Employee Ownership*

**J**ust released from Cornell University Press is *The Real World of Employee Ownership*, by John Logue and Jacquelyn Yates with Karen Thomas and Jennifer Maxwell. Based on substantial data and analysis of almost two-thirds of the ESOPs in Ohio, the major conclusions of the book are 1) giving employees information about their business, training them to understand that information, and empowering them to act on their understanding is the most reliable path to successful business performance, 2) the key to it all is employee interest: engage that and the rest will follow, 3) unions and ESOPs can and do prosper in the same firm and 4) federal tax policy is channeling most of the benefits to companies that do the least to promote economic growth, broad participation and widespread ownership of wealth.

The book opens with a history of employee ownership in America that links it to longstanding philosophical and political traditions of enterprise, equality and the stabilizing effects of widespread property-holding.

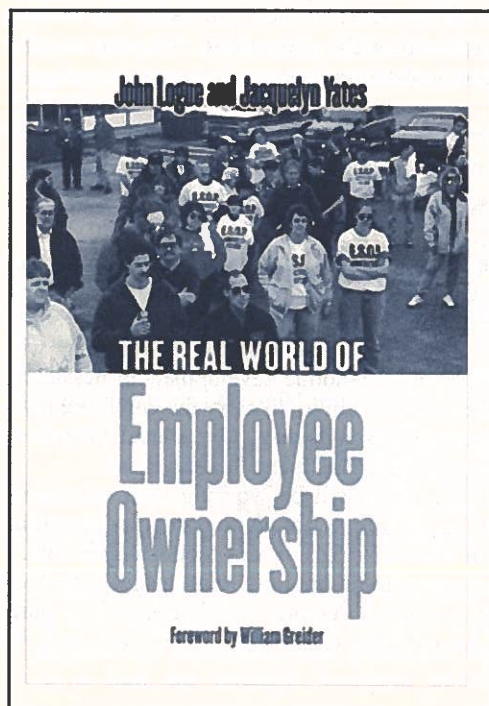
The study then looks at how often companies practice progressive management: providing business information, training employees, and opening doors for them to act on what they know. While a majority of companies with ESOPs are doing a little to increase employee training and involvement, only about one quarter are doing more.

"Doing a little" does not seem to have much impact on any of several measures of firm performance, but "doing a lot" makes a difference. The more an ESOP firm becomes a progres-

sively managed enterprise, the better its results. As an earlier GAO study suggested, employee ownership and employee involvement together are a recipe for success. Sometimes this is a little perplexing: putting non-managerial employees on the board of directors doesn't seem that it would have any direct connection to better operations or profits, but the data in this study suggest that it does. The key, it appears, is the interest of employees in participating in the management and governance of the firm. Having a non-managerial employee on the board stimulates interest, and when employees are interested they are ready to take the steps that help their firm perform. The vital role of employee interest is depicted in a model which puts interest at the heart of it all. Various statistical tests of the model do not belie the hypothesis.

Analysis of unionized firms and comparison to other ESOP firms in the same economic sectors suggests that, at the very least, unions do not harm employee ownership and can help spectacularly. Some of the most progressive and successful ESOPs in Ohio turn out to be unionized firms where the employees hold majority ownership.

Finally, if high-performance ESOP firms are the ones that have done a lot to transform themselves and grow, shouldn't they be the ones to receive the tax benefits? Right now, they don't, report the authors of *The Real World of Employee Ownership*. Most of the benefits are going to large companies where employees own only a small percentage of stock, and where the commitment to participation and development is minimal at best. oaw



"This is the single most important book on employee ownership—the one to read! Logue and Yates analyze three decades of experience and show how we can now take the next, quantum jump forward in democratizing the American economy."

**Gar Alperovitz,**  
Lionel R. Bauman Professor of  
Political Economy, University of  
Maryland.

256 pp. with numerous tables and graphics. Cornell University Press, paperback ISBN 0-8014-8394-8 \$17.95; hardcover ISBN 0-8014-3349-5 \$45.00

May be ordered from the OEOC or from Cornell University Press, Ithaca NY 14850 ([www.cornellpress.cornell.edu](http://www.cornellpress.cornell.edu))





## Network News

### ESOP Loan Paid off at Gutknecht Construction

The 53 employee-owners of Gutknecht Construction celebrated the payoff of their ESOP loan at their company meeting in September. As recounted by **Mike Poyer**, Gutknecht's controller and an ESOP trustee, "we celebrated with a champagne toast as we put a mock-up of the loan document through the shredder!" Since paying the 7-year ESOP loan in three years and three months, they now own 40% of the company. Based in Columbus, the firm is a general contractor.

### Pumpkin Contest at Environmental Design Group

How do very creative employee-owners celebrate ESOP Month? The design engineers and landscape architects at **Environmental Design Group** held a pumpkin carving contest. Participants at the Network's CEO Roundtable in October, hosted by EDG President **Bill Bandy** at the firm's headquarters in Akron, served as guest judges for the contest, selecting the most original, most creative, scariest, and "Best of Show". EDG provides professional planning, design, landscape, and environmental consulting in four practice groups: parks, greenways and ecological services; development services; environmental services; and infrastructure services.

### THT Presses begins financial training

**Lori Hall**, the controller of THT Presses, came to the pilot

session of the financial game in Dayton (see pg. 18), played the game, got a lot of good ideas, and was inspired to begin educating others at THT, a manufacturer of die cast presses and die cast molds which is a 49%-owned ESOP established last year. Her first session

focused on the income statement because, as she explained it, "we haven't had an income statement we could present to our employee-owners in the past, but we plan to begin soon."

"I used the Financial Game for ESOPs as a model of a simplified ESOP business, but I created a game just for THT which was specific to our products and offered learners at our company the opportunity to learn more about the kinds of sales and production issues that fit our business."

"With our 40 employees, we set-up four separate sessions of ten employees each over four days. We served lunch followed by a 90-minute game session; using two game groups of five

persons each. Because we mixed our engineers and shopfloor people together in each group, everyone brought different ideas to the session."

"We got good feedback on the game. Employees told us that it opened their eyes about why things are done, why decisions are made, what they can do to have a greater financial impact, and how it all connects to their job. After the session there was lots of talk out on the shop floor. We plan to offer more sessions in the future!" OAW



*Pete Battista, ComDoc; Bruce Macleod, Lakeshore Foods; John Logue, OEOC; Joseph Kuzma, Philpott Rubber; Paul Miller, Thybar; and Bill Bandy, Environmental Design Group select Best of Show at the Environmental Design Group Pumpkin Carving Contest, judged by participants at the Network's CEO event in October.*

## Center Will Miss Departing Staff Member

**A**fter six years with the OEOC, Alex Teodosio is ringing in the New Year with a new position as Manager at Ernst & Young's ESOP Services Group in Cleveland. Alex graduated from Bowling Green State with a Masters Degree in Public Administration. While working at the OEOC, he earned an MBA at Kent State University's Graduate School of Management.

Alex has been an important OEOC team member since 1996. In the Cleveland area, he is well known for his efforts coordinating the OEOC's popular Business Owner Succession Planning Program to assist owners in making the transition to retirement. The program has served close to 400 business owners. Of those, about 10% are actively considering an ESOP for the future. A few have already gone on to sell part or all of their company to the employees.

Employee owners participating in Ohio's Employee Owned Network or the ESOP Association's national Employee Owner Retreat have learned about ESOPs, financials and team problem solving skills from Alex. His close working relationship with ESOP service providers and economic development professionals has contributed to the OEOC's ability to carry the employee ownership message to many Ohio audiences. Our annual *Friends of the Center* campaign was one of his many funding ideas.

In his new position, Alex will be working with companies interested in exploring an ESOP for their particular situation. He can be reached at 216-583-1525 or alex.teodosio@ey.com.

While we look forward to an ongoing relationship with Alex in his new position at Ernst & Young, the absence of his daily contributions will be evident. Good luck, Alex, you will be missed. OAW



# Ohio's Employee-Owned Network: Building a Community of Owners

## 2002 Education Programs

### Thursday-Friday, February 21-22 Atwood Lake Conference Center *Employee Owner Retreat*

Provides a basic orientation to ESOPs and to the basics of business and understanding business financial information. Participants explore the roles and responsibilities of employee owners, and gain a broader perspective on employee ownership. Through interactive sessions, participants learn with and from peers.  
*Register for 1 or 2 days with optional evening session and overnight stay*

#### Thursday, February 21

- **ABC's of ESOPs** — Participants play the ESOP Game and learn how ESOPs work
- **ESOP Exchange** — An evening session in which participants discuss how employee ownership works at their firm.

#### Friday, February 22

**What every Employee Owner Needs to Know about Business** — choose 1 of 3 financial tracks

- Understanding the Numbers
- The Financial Game for ESOPs
- Making the Numbers Meaningful

#### Friday, March 8 Dayton

### **Leading & Managing Owners: Practicing Open Book Management & Teaching about Cash Flow**

Explore the basics of open book management, a case example of Ohio Valley Supply Company's five years of experience with this approach, and a lesson in understanding cash flow.

#### Tuesday, March 12 Kent

**Leading & Managing Owners:  
Team Leadership & Effective Meetings**

#### Thursday, April 11 Akron

**Employee-Owner Communication Roundtable  
CEO Roundtable  
Network Annual Dinner Meeting  
Company Showcase Reception**

**!! Mark Your Calendars !!**

**Friday, April 12 Akron**

### **Ohio Employee Ownership Conference**

#### ***Employee Ownership: Building Better Communities***

Sessions on ABCs of ESOPs, technical and administrative issues, HR, communication and participation strategies, ESOP committees, and more! (see info on page 14)

**Monday-Thursday, June 10-13**

**2002 ESOP Summer Institute**

**Kent State University**

### ***Transitioning your ESOP & Transforming your Company***

- **Communicating a Vision of Ownership** – Monday, June 10  
Is your firm getting started with, or reactivating, an ESOP? Explore the basics of ESOP processes and the use of ESOPs as a tool for strategic business development. Interactive

session providing basic concepts for ESOP communication and administration, with expert technical information.

- **From Employees to Owners** – Tuesday, June 11  
Explore the growth stages in ESOPs and key communication issues facing ESOP firms as they mature: minority to majority ownership, sharing the rewards of ownership with new employees, leadership succession, ups and downs of stock value, and other factors in long-term success.
- **Leading & Managing Owners: Linking Ownership to Profitability** – Wednesday, June 12  
A.M. Teaching about Cash Flow  
P.M. Team Leadership & Managing Conflict
- **ESOP Administration Update** – Thursday, June 13  
**Distribution, Diversification, & Repurchase Obligation**  
Explore current regulations, options & issues concerning ESOP distribution, diversification, and repurchase including: various repurchase options, dealing with layoffs and heavy hitters, distribution into other vehicles, and dealing with uncertain times and stock volatility.

#### Friday, September 13 Dayton

#### Thursday, September 19 Kent

**Employee Ownership Basics:  
An Orientation**

A highly interactive session in which participants play The ESOP Game, learn how ESOPs work, and explore the meaning of life (in an ESOP!)

#### Friday, October 18 Dayton

#### Tuesday, October 22 Kent

**Leading & Managing Owners:  
Linking Ownership to Profitability**  
A.M.: Teaching about Profit & Loss  
P.M.: Team Leadership & Team Decision-making

#### Friday, November 15 Dayton

#### Tuesday, November 19 Kent

**Leading & Managing Owners:  
Linking Ownership to Profitability**  
A.M.: Teaching about your Balance Sheet  
P.M.: Team Leadership & Team Problem-solving

#### October - November

**CEO Roundtable** TBA

**HR Roundtable** TBA

#### Wednesday, December 4 Kent

### **ESOP Fiduciary Training Workshop**

A session for trustees, ESOP administration committees, and Directors

#### Thursday, December 5 Kent

### **ESOP Administration Forum**

An update on relevant tax, legal, and fiduciary concerns



# New Financial Game for Employee Owners

**W**e need financial training and make it fun! Make the game as much fun as The ESOP Game, but teach the basics of business financial reporting!

This theme emerged from discussions among Network member ESOPs at last year's annual meeting and inspired OEOC staff to develop a new educational program to serve two purposes:

- a game kit to take home and customize for in-company education
- an introductory education program on financial basics for the Network's multi-company sessions

The OEOC's new Financial Game for ESOPs was piloted at the ESOP Summer Institute at Kent State University in June, at Reuther Mold and Manufacturing in August, and at one of the series of four Leading & Managing Owners sessions which were held in Kent and Dayton in September. A special edition of the game for engineering firms was piloted in October at Loureiro Engineering Associates in Connecticut.

Here is instructor Dan Bell's take on it:

## The Financial Game for ESOPs

Where does your household income come from? It comes from your paycheck. Your paycheck gets spent on your monthly expenses—mortgage payment, phone bill, groceries. If you don't spend it all, you have some left over to put in a savings account or an IRA. The company's paycheck comes from your customers. On the Profit & Loss Statement, this is called Sales or Revenue. Just like at home, most of the company's paycheck gets spent on monthly expenses. If anything is left over, we call it Profit. Profit can be retained and put in the company's "IRA"—we call this the Balance Sheet.

In your IRA, you quickly convert your cash deposits into stocks, bonds, CDs and other investments that will hopefully make money for you. Similarly, on the company Balance Sheet you convert your Profit into other things which hopefully will make money for you—we call these Assets—new equipment, new sites, other companies.

What do you do at home when this month's expenses are bigger than your paycheck? If this is a temporary problem, you can solve the problem with a credit card. You can charge an unusual expense to the credit card this month and then pay it off out of your usual surplus over the following month or two.

The company handles its Cash Flow situations the same way. In some months payments from customers are less than the bills coming due from your suppliers (including payroll), and the company draws on its Line of Credit in order to pay its bills. In a later month, when collections are greater than the payments due, you will be able to pay down the Line of Credit.

Sometimes, the problem of monthly expenses exceeding your paycheck becomes a permanent issue. In this case, relying on the credit card will just get you into more trouble. Here you need a long term solution. There are two: set up a monthly budget to reduce and control your expenses, or increase your paycheck by getting a second job or changing to a higher paying one.

The company faces the same challenge. If your product or

service produces a nice profit capable of supporting a good standard of living for the company's employees and owners, it is likely to attract competition that takes a part of your profit. With more competition, the company is forced to lower its prices, or at least not raise them even though expenses go up with inflation. To deal with this situation, the company can do two things. First, it can control its monthly expenses. Second, it can increase its Sales.

Companies which use Open Book Management involve their employees in controlling monthly expenses. This frees up the company leadership to do its job—develop a strategy which will continually move the company into tomorrow's profitable markets, products and services. Meanwhile, one hundred employees, each focused on ways to save the company \$1000, can produce \$100,000 in savings. When employee owners take care of today's business, the company's leaders are free to do their job of creating tomorrow's business.

Employee owners can control expenses and increase profits (and their stock value) in at least four ways:

First, they can reduce the variable costs associated with each unit produced. By reducing scrap, wasted energy and the time needed to produce each unit, productivity increases. A lower cost per unit means each unit produced contributes more to profits.

Second, employee owners can spread a greater amount of production over the same amount of fixed costs. If the CEO's salary is \$100,000, and the employees produce 100,000 units, the cost of the CEO is \$1 per unit. If the employees can increase production to 200,000 units, the CEO only costs 50 cents per unit. This lowers the per unit cost by 50 cents, and that is a half dollar which drops directly to profits.

Third, stretching the useful life of the equipment and lowering the need for maintenance can reduce the cost per unit. For example, if a \$36,000 machine were expected to produce 36,000 units, but can be stretched to produce 48,000 units, the cost per unit drops from \$1 to 75 cents per unit. And the savings go to profits.

Fourth, controlling Inventory and Accounts Receivable can reduce the company's cost of financing. Assume we need one \$1 widget bolt for each of the 100,000 widgets to be produced this year. We could borrow \$100,000 to buy a year's supply of bolts and pay \$10,000 in finance charges (10% interest over a year), or we could borrow \$10,000, and buy 10,000 widget bolts every five weeks. This saves \$9,000 in interest or 9 cents per unit for profits.

Employee owners who understand the Profit & Loss Statement, the Balance Sheet, and Cash Flow can have a direct influence on their company's profitability in the short term and the value of the shares in their retirement account over the long term.

The new game enhances the offerings of financial education programs available through the Network and taught by the staff of the OEOC. Other financial workshops, developed for nonmanagerial employee owners who serve on the Board of Directors of their firms, include a workbook-based session on financial basics and a session on financial analysis using a case study approach. oaw



## Job Opening at the OEOC

**T**he Ohio Employee Ownership Center will be hiring an additional full-time staff person committed to the philosophy of democratic employee ownership and employee involvement with substantial work experience in this or cognate fields.

The ideal candidate possesses substantial experience working directly with employee ownership or with cognate fields including public-sector economic development, business analysis, industrial retention, labor or community organizing, or adult education. The minimum of a bachelor's degree in a related field and at least three years of work experience in employee ownership (or an equivalent combination of education and experience in a cognate field) is required.

The Program Coordinator should be capable of stepping directly into the on-going work of the Center in either technical assistance in employee buyouts, business ownership succession, or training in employee-owned firms. Demonstrated leadership skill is a plus, and candidates with established curriculum development and fund-raising skills are preferred. As with all OEOC staff positions, the Program Coordinator will also be expected to participate in the on-going work of the Center which includes writing articles, answering routine inquiries by phone or mail, research, attending staff meetings, and completing routine administrative tasks.

The OEOC promotes employee ownership of firms in Ohio through information, outreach, and preliminary technical assistance to employee groups, managers, and owners interested in employee ownership; and through training and education for existing employee-owned firms. The OEOC is funded primarily by grants from the Ohio Department of Development, private foundations, and contracts with employee-owned firms. As a university-based program, the OEOC has an active research agenda, which includes international projects.

Salary is commensurate with skills and experience and comparable to that in the non-profit community development field; includes full university benefit package. The OEOC is an equal opportunity employer and encourages applications from women and minorities.

This position will be available from January 6, 2002, until a person is actually hired.

This position is funded on a full-time basis for the remainder of the fiscal year (through June 30, 2002), and renewable as funding permits. If you are interested in applying for this position, please send a letter of application, a current resume, salary history and current salary requirements to Karen Thomas, Associate Director, Ohio Employee Ownership Center, 309 Franklin Hall, Kent State University, Kent, OH 44242; fax: 330-672-4063, or call 330-672-3028 for more details. oaw

## Business Owner Succession Planning Program

**T**he Ohio Employee Ownership Center (OEOC) has been teaming up with the Greater Cleveland Growth Association's Council of Smaller Enterprises (COSE) and the Cleveland Advanced Manufacturing Program (CAMP, Inc.) since 1996 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.

Participants receive *An Owner's Guide to Business Succession Planning*. This manual presents clear and concise step-by-step succession planning techniques. A directory of local service providers, worksheets, selected readings and presenter packets will also be provided. Owners have the opportunity to

ask technical questions and interact with other business owners.

This program aims 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 CAMP, located at 4600 Prospect Avenue in Cleveland. **Registration for each seminar is limited to the first 40 business owners who sign up.**

The cost is \$25.00 per seminar or all six seminars for \$100.00. Parking is free and breakfast will be provided. Directions will be faxed prior to each seminar.

*To register or for more information, please contact:*

**Chris Cooper at 330-672-3028 OR ccooper1@kent.edu**

### Spring 2002 Tentative Schedule of Seminars (speaker order and dates subject to change)

March 7 – Developing a Succession MAP- Model Action Plan	Richard Tanner, Ownership Advisors
March 21 – Recent Tax Law Changes: Business & Estate Issues	James Aussem, Brouse McDowell
April 4 – Financial Transactions in Succession Planning	Neil Waxman, Capital Advisors
April 18 – Selling to Your Employees: Employee Stock Ownership Plans	Carl Grassi, McDonald, Hopkins, Burke & Haber
May 2 – Maximizing the Value of Your Business	Michael Pappas, Barnes Wendling
May 16 – Government Financing Programs: SBA, State of Ohio, Local	Gerry Meyer Greater Cleveland Growth Association's Growth Capital Corporation



## New Fin

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most important, democracy. By enlarging the system, broad business ownership strengthens freedom and democracy. He repeats the advice of Sir Francis Bacon to King Henry VII, "Wealth is like muck. It is not good but if it be spread."

Oakeshott, who has spent most of his professional career studying, teaching, researching and encouraging employee ownership, is an unabashed enthusiast who combines history, philosophy, legal argument and case studies to show that substantially employee owned companies can succeed at least as well as other firms, while additionally providing job security and broadly distributing capital income.

Calling the employee stock ownership plan, "one of the most consequential social inventions of this century," he gently dismisses critics who argue that employee-owned firms are inevitably doomed by the greediness of workers. His evidence is simple: employee-owned firms work. With modest encouragement from law, the number of substantially employee-owned firms in Europe and North America has grown from about 15 in the 1970s to over 1000 by the end of the century.

Oakeshott's early chapters provide a brief introduction to moral, philosophical and legal antecedents of employee ownership. They are followed by case studies of employee-owned firms in Western Europe and North America, and these are the book's strongest point. Oakeshott knows them well—the producer cooperatives in Italy and France, the cooperative shoe factories in England, the business owners who gave ownership to employees as an act of generosity, and the employee-owned firms created by privatization during Margaret Thatcher's administration.

The Carl-Zeiss-Stiftung, a famous German optical products company, was created as a beneficial foundation for its employees in 1891. It was divided when the country was split after World War II, and its facilities in Jena, East Germany, were nationalized by the Communist government. When the country was reunited in 1991, the company purchased its former subsidiary and revived it. The Stiftung offers employees excellent pay and benefits, emphasizes scientific know-how and research and development, but practices no employee governance nor any shop-floor involvement.

In contrast, the John Lewis Partnership, a retailing and manufacturing chain in the U.K., uses extensive employee involvement in management and governance. Employee owner-

## Book Review Partnership for Democracy

Jacquelyn Yates

Michael Russell  
10 pp. ISBN 0-

ship dates to 1929, when the partnership was created as a trust by the company founder's son, who worked out the basic principles while managing one of the stores. The capital of the company is owned collectively by the employees, but the income is owned individually. Oakeshott provides a detailed picture of the firm enduring the vicissitudes of business, and he describes structures and practices that have developed over the years to help the firm survive bad years and succeed in good ones.

A company which found its way to participation is the Baxi corporation, a British firm that rode the rising market for water heaters to great success after World War II. Oakeshott's history and analysis identify strengths and weaknesses, and help to explain why the corporation was unable to maintain its employee ownership after the book went to press.

Despite its factual tone, Oakeshott's tale of the privatized British bus companies leaves the reader cheering for the employee owners as they struggle to stay in business in the face of brutal competition from the country's largest private bus com-

***Oakeshott argues that more substantial employee ownership could reduce unemployment, stimulate economic growth and address problems of business succession, but most of all it could strengthen democracy***

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Oakeshott's case studies outside the U.K. include the Herend Porcelain factory in Hungary, privatized in 1993; in the U.S., Weirton Steel, Republic Engineered Steel, Polaroid, Allied Plywood, Cooperative Home Care Associates and United Airlines. He concludes with the tale of Tullis Russell, a paper company sold by its family owners, including David Erdal, whose study on the social effects of ownership appears as the lead story of this issue.

In closing, Oakeshott argues that more substantial employee ownership could reduce unemployment, stimulate economic growth and address problems of business succession, but most of all, it could strengthen democracy.

His enthusiasm for employee ownership and his meticulous descriptions of companies and their practices make this book an engrossing read and a long-term value as a reference and source of solutions to organizational problems. oaw



## Book Review

# Employee Ownership for Democracy

Jacquelyn Yates

Robert Oakeshott, *Jobs and Fairness*, Michael Russell Publishing Ltd., Norwich, U.K. 2000. 710 pp. ISBN 0-85955 256 X

Most employee owners understand very well that employee ownership with employee participation is good for employees and good for companies, but most importantly, argues Robert Oakeshott, it is good for democracy. By enlarging the number of people who have a stake in the system, broad business ownership strengthens freedom and democracy. He repeats the advice of Sir Francis Bacon to King Henry VII, "Wealth is like muck. It is not good but if it be spread."

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Together with MMC&P, BCI Group's actuarial division, and **BCI edu.com**, the education and communication division of BCI Group, the BCI Group family provides the most comprehensive retirement benefits services in the industry.

For more information contact Pete Prodoehl at our Corporate Headquarters:  
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**Alliance Holdings, Inc.** offers closely held companies unique ways to transfer complete or partial ownership of their business. At the core of these solutions is the belief that employee ownership, through the use of a captive ESOP, provides the greatest benefits to both the selling shareholder and the employees.

Alliance Holdings is a private equity holding company owned 85% by its ESOP and 15% by an affiliate of Banc One. Interested owners of companies with an enterprise value of \$5-\$75 million, stable operating results, sustainable cash flow, a strong management team and are partially or entirely ESOP owned, fit well within our profile.

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Contact: Leslie A. Lauer  
614-781-1266  
[lauer@allianceholdings.com](mailto:lauer@allianceholdings.com)

## We Don't Meet Standards of Excellence

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We are proud to serve our ESOP clients. For more information on Huntington's commercial services, contact Michael Blasko, Vice-President and Team Leader, Commercial Banking at 216-515-0378.



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**Kokkinis & Associates** is a financial advisory firm based in New York City, focused primarily on establishing employee-owned companies. The firm offers a full range of services, from feasibility work to investment banking services. The firm is one of the leading providers of feasibility studies for employee buyouts. We specialize in working with employees who are facing a possible plant shutdown, particularly in unionized situations. Other services include: assessing corporate viability and debt capacity; financial restructuring; succession planning for family-owned businesses; business plan development; business valuation; and obtaining financing. The firm has worked with several of the major organizations dedicated to industrial retention, including the Ohio Employee Ownership Center, Steel Valley Authority located in Homestead, Pennsylvania, and the Ownership Transition Services Program of the New York State Department of Economic Development.

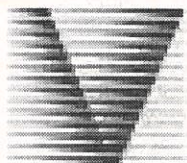
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Our ESOP Services Group advises private and public corporations, selling shareholders, banks and investment bankers on implementing, structuring, and financing ESOPs to achieve business objectives.

We also counsel clients on corporate, litigation, taxation, employee benefits, health law and estate planning and probate issues.

**Carl J. Grassi, Esq.**  
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For two decades Valuemetrix has been advising clients on ESOP issues ranging from feasibility to implementation. Valuemetrix maintains a national reputation for its financial advisory / investment banking services by creating successful corporate lifecycle transitions in middle market and emerging growth firms. Valuemetrix' experience includes ESOP valuations, exclusive sales, mergers, acquisitions, recapitalizations, management and employee buyouts, strategic planning, project finance, restructuring, plus fairness and solvency opinions. For more information, please contact **Loren Garruto**, Director at 216-479-6876 or [l.garruto@valuemetrix.com](mailto:l.garruto@valuemetrix.com).

## GREATBANC TRUST COMPANY INDEPENDENT ESOP TRUSTEE

GreatBanc Trust Company welcomes the opportunity to discuss the benefits of utilizing an independent ESOP trustee.

As an experienced ESOP trustee, we understand the complexities of the independent trustee's role. Our ESOP team is led by John Banasek, CFP and Marilyn Marchetti, J.D., nationally recognized experts in ESOP transactions.

For more information on how an independent trustee may contribute to the success of your ESOP, contact John Banasek at (630) 572-5122 or Marilyn Marchetti at (630) 572-5121. Our national toll free number is 1-888-647-GBTC. We are located at 1301 W. 22<sup>nd</sup> St., Suite 702, Oak Brook, IL. 60523.



# OWNERS AT WORK

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## OEOC

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## UPCOMING NETWORK EVENTS – 2002

**Thursday and Friday, February 21 & 22 Atwood Lake  
Conference Center**

Employee Owner Retreat

**Friday, March 8 Dayton**

Leading & Managing Owners: Linking Involvement to  
Profitability – Teaching about Cash Flow

**Tuesday, March 12 Kent**

Leading & Managing Owners: Teamwork & Effective  
Meetings

**Thursday, April 11 Akron**

Employee-Owner Communications Roundtable  
CEO Roundtable  
Network Annual Dinner Meeting  
Company Showcase Reception

**Mark Your Calendars !!**

**Friday, April 12 Akron**

**The 16th Annual  
Ohio Employee Ownership Conference**

(See pg. 14)

**Monday-Thursday June 10-13 Kent**

**2002 ESOP Summer Institute**

Transitioning your ESOP & Transforming your Company

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

## OTHER EVENTS OF INTEREST

**March 4-6, 2002**

La Jolla Marriott  
La Jolla, CA

**Foundation for Enterprise Development  
Annual Conference (see pg. 7)**

For more details, call 858-826-1680

**March 19, 2002**

Grand Host East  
Columbus, OH

**Ohio Chapter, The ESOP Association  
Spring Conference**

For more details, call 440-989-1552

**April 24-26, 2002**

Chicago Mart Plaza Hotel  
Chicago, IL

**National Center for Employee Ownership  
Annual Conference**

For more details, call 510-208-1300

**May 15-17, 2002**

Renaissance Washington Hotel  
Washington, DC

**The ESOP Association  
Annual Conference**

For more details, call 202-293-2971

**August 8-10, 2002**

DoubleTree Guest Suites  
Downers Grove, IL (Chicago)

**The ESOP Association  
Employee Owner Retreat**

For more details, call 202-293-2971

**October 9-11, 2002**

Four Points Sheraton Hotel  
Washington, DC

**Capital Ownership Group  
International Policy Conference**

For more details, call 330-672-3028

## Preliminary Feasibility Grants

The Ohio Employee Ownership Center (OEOC) administers the Ohio Department of Job & Family Services 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).

The National Steel/Aluminum Retention Initiative (NSARI), administered by the OEOC, provides preliminary technical assistance to buyout efforts in the steel and aluminum industries. The program can also provide technical assistance to existing employee-owned companies in these industries. For information, call Steve Clem or John Logue, at 330-672-3028 or at <http://www.kent.edu/oeoc/nsari/>.

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