OWNERS AT WORK

The Ohio Employee Ownership Center's
magazine of employee ownership
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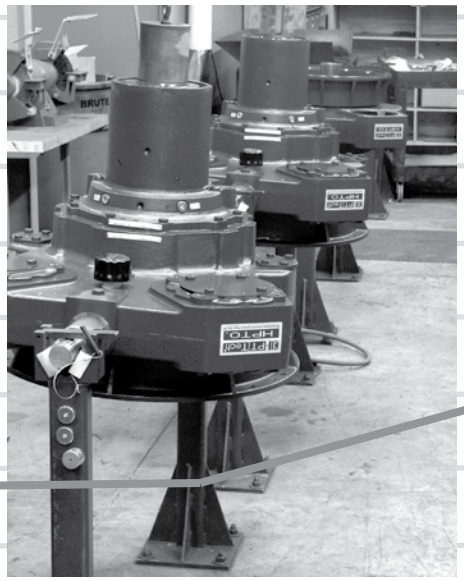
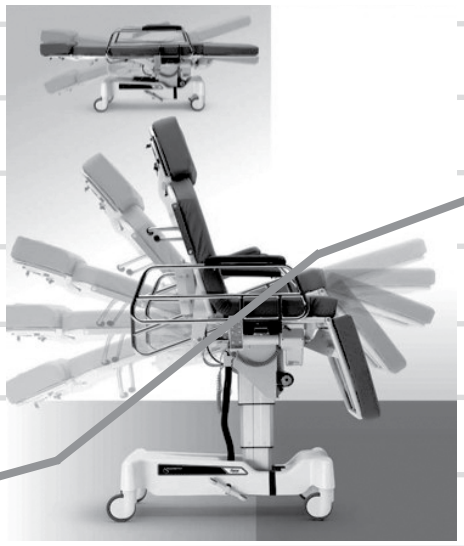
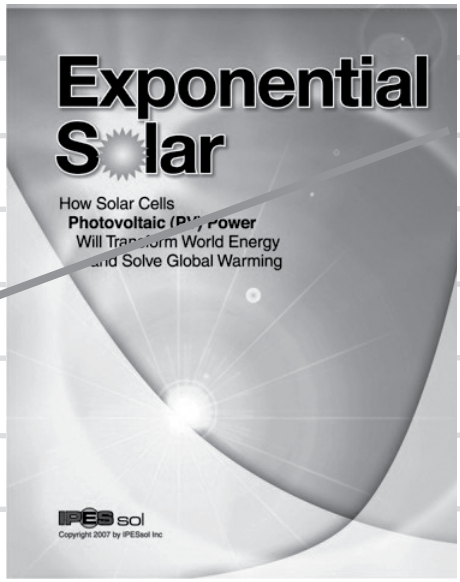
ESOPS and Innovation

EBO Group Creates "Venture Capitalists"







ALSO...

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22nd Ohio Employee Ownership Conference
How Employee Ownership Improves Homecare

OWNERS AT WORK

Editor
Jacquelyn Yates • jyates@kent.edu

Staff Writers
Jim Anderson • jander77@kent.edu
Steve Clem • cclem@kent.edu
Chris Cooper • ccooper1@kent.edu
John Logue • jlogue@kent.edu
Bill McIntyre • bmcinty2@kent.edu
Jay Simecek • jsimecek@kent.edu
Karen Thomas • kthomas@kent.edu

Layout
Chris Cooper

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Owners At Work
Ohio Employee Ownership Center
113 McGilvrey Hall
Kent State University
Kent OH 44242
330-672-3028
oeoc@kent.edu
www.kent.edu/oeoc

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

The OEOC is funded by grants from the Ohio Department of Development's Office of Labor/Management Cooperation, the Ohio Department of Job and Family Services, as well as contributions from Kent State University, Friends of the Center, and the companies that comprise Ohio's Employee-Owned Network.

KENT STATE UNIVERSITY

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Publisher's Note

There has long been a belief that employee-owned firms are better at continuous improvement than at innovation. And they are good, very good indeed, at improving existing processes and products, at least when employee involvement is combined with ownership.

But is it true that they are less innovative? The last issue of Owners at Work featured an interview with Bob Beyster of Science Applications International Corporation (SAIC) and a review of Beyster's book The Ownership Solution: How We Built an $8 Billion Employee-Owned Technology Company. *SAIC has been one of the outstanding successes in the government contracting arena, as Beyster built a start up company into a 40,000 employee-owned innovation behemoth.*

This issue features the transformation of a much smaller Ohio company – PT Tech, which designed components for continuous mining equipment and other heavy equipment – into the EBO Group, which has added a medical equipment line and an alternative energy startup.

With the growing rapidity of economic change, innovation will be as important to the future of the employee-owned sector as continuous improvement.

The rapid expansion of the low income service sector – janitorial services, food services, homecare assistance, temp agencies, childcare, and the like – has generally been seen as rocky ground for employee ownership. One widely publicized exception has been Cooperative Home Care Associates (CHCA) in the South Bronx, which has grown to be the largest worker cooperative in the US with roughly 1000 employee members. But despite several efforts, it has been hard to replicate.

Except in rural Wisconsin, it turns out. Margaret Bau, the US Department of Agriculture's cooperative development specialist, writes about two new home care co-operatives which have been established there, and Wilson Magee describes the impact on coop members.

The evidence is that employee ownership can provide higher incomes, better benefits, and worker empowerment in low wage sectors – just as in high wage sectors.

This issue of *Owners At Work* is sponsored by

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Indiana Launches Employee Ownership Initiative

In May, Indiana Treasurer Richard Mourdock announced the launch of a $50 million linked-deposit loan program to assist Indiana businesses seeking to become ESOP companies. The program resembles Ohio's Linked Deposit Program (now called GrowNow) reported in the last issue of *Owners at Work* (Winter 2008).

In his press release announcing the program, Mourdock noted that "ESOP companies have a track record of creating wealth, encouraging the entrepreneurial spirit, and increasing productivity. Furthermore, no group of employee owners has ever, ever, ever, ever moved their company to Mexico or China." Mourdock worked for an ESOP company before he was elected State Treasurer and developed great appreciation for the ability of ESOPs to preserve jobs.

When Ohio Treasurer Richard Cordray announced the Linked Deposit Program, he said that every ESOP loan should have a linked deposit attached to it. Ohio's program effectively subsidizes the interest rate on small business loans by 3% for a period of two years and makes debt service more manageable as the business goes forward.

Indiana Treasurer Richard Mourdock

Indiana's linked deposit program functions much like that of Ohio except that Indiana's program is only for the creation of new ESOPs. Ohio's program, in contrast, covers all small businesses, and creating a new ESOP, while desirable, is not required. In addition, Ohio's program is available to existing ESOPs.

As part of Indiana's ESOP Initiative, Mourdock also announced that Credit Suisse, which is managing the $155 million Indiana Investment Fund targeted for investment in Indiana on behalf of Indiana's Public Employees' Retirement Fund and the Indiana Teachers Retirement Fund, will consider purchases of equity in an Indiana company for the purpose of completing an ESOP transaction on a case by case basis.

More information on the Indiana program can be found at: http://www.in.gov/tos/2797.htm.

Good News for Government Contractor ESOP Companies

For many years, there have been questions regarding the inclusion of ESOP expenses as reimbursable costs for ESOP government contractors and that have cost-plus contracts. The U.S. Cost Accounting Standards Board issued final rules on May 1, 2008, clarifying the treatment of ESOP expenses in a manner that is very favorable to ESOP companies.

The questions that have existed for years are (1) the measurement of expenses for non-leveraged and leveraged ESOPs; (2) whether contributions for interest on the ESOP note were reimbursable; (3) whether dividends paid to an ESOP that are deductible for federal income tax purposes would be a reimbursable expense; and (4) whether the contractor's reimbursable expense should be measured in a manner similar to Statement of Accounting Position 93-6.

ESOP companies engaging in cost-plus contracts with the government were at a huge disadvantage because of uncertainties regarding their ability to be reimbursed for their ESOP expenses.

Those uncertainties have now been removed. All of those questions have been answered favorably for ESOPs.

The Cost Accounting Standards Board ruled that: (1) company ESOP contributions are reimbursable whether made in cash or stock; (2) contributions made for both principal and interest on ESOP notes are reimbursable; (3) cash dividends paid on stock owned by the ESOP are reimbursable to the extent the dividends are used to make a payment on an ESOP note; and (4) expenses are measured by the cash or fair market value of the stock contributed, and not by the value of shares released method of SOP 93-6. There was no distinction in the rules between C and S Corp ESOPs.

The removal of the uncertainties and the favorable rules re ESOPs may encourage non-ESOP government contractors to establish ESOPs and may encourage ESOP companies who had previously avoided cost-plus contracts to seek them out in the future.

ESOP companies performing cost-plus contracts for the government should consult with their professional advisors to assess the impact of these new rules on their specific situation.

This article was reviewed and edited for accuracy by Laurence Goldberg, Partner, in the San Francisco, CA, office of Sheppard, Mullin, Richter & Hampton, LLP.

Hinchey, Rohrabacher Introduce Pro-ESOP Resolution in Congress

Maurice Hinchey (D-NY) and Dana Rohrabacher (R-CA) have introduced House Concurrent Resolution 333, which states, "Congress expresses its continued support for employee stock ownership plans." The resolution notes that "there have been ample data collected by objective research indicating that the vast majority of corporations sponsoring employee stock ownership through ESOPs are high performing companies that, among other indicia of high performing companies, have better sales, are more sustainable, pay better,

Employee Ownership News


Congressmen Hinchey (left) and Rohrabacher (right).

and provide more retirement savings compared to similar companies that are not employee-owned." Hinchey is one of the more liberal members of Congress and Rohrabacher one of the most conservative.

Casa Nueva Makes National Top 50 Favorite Restaurants

Casa Nueva Restaurant, Cantina, & Bodega, an employee-owned cooperative business in Athens, OH, was named one of 50 favorite local restaurants in the US in the June 2008 issue of *Budget Travel*.

Nearly 400 restaurants were nominated. Only two restaurants are listed for all of Ohio. Here's what the magazine had to say:

"Casa, as locals call it, is a slow-food-promoting, worker-owned co-op in the heart of a college town, but it's not your average hippie hangout. For one thing, there's meat—but if you don't want the King Family Farm bacon or spicy sausage, there are plenty of meatless options, too: for brunch, fluffy, lemony cottage cheese pancakes; for dinner, huge burritos made from fresh tortillas and filled with jasmine rice and veggies. The chips and salsa—particularly the black bean version—should be ordered regardless of which meal you eat. 4-6 W. State St., 740-594-8691, casanueva.com entrées from $6."

Casa Nueva opened for business as a worker-owned cooperative in 1985 when a group of former employees put up $1,000 each to purchase the assets of their much-indebted restauranteur-employer who had skipped town. Casa has shown a profit every year since and is a sparkplug for local economic development through its commitment to purchase food supplies locally.

Worker-members get involved in all aspects of managing the business. Casa serves as an entrepreneurial incubator as many former members have started their own businesses after graduation from nearby Ohio University.

Budget Travel is published by Arthur Frommer. The website is www.budgettravel.com.

Casa Nueva was featured in *Owners at Work* XIV:2 (Winter 2002-2003).

New Ohio Law Helps ESOP Architectural Firms

A new Ohio law that took effect on June 20, 2008 makes majority ESOP ownership possible in the state's licensed architectural and landscape architectural firms. Senate Bill 225, sponsored by State Senator Tim Schaffer of Lancaster, amends sections of the Ohio Revised Code governing the practice of architecture in an effort to bolster Ohio's economy and business climate.

Previous law required that a majority of the ownership of professional architectural firms must be held by registered professional architects in order to do business in the state. Majority ownership by an ESOP was not allowed even when the ESOP participants were professional architects.

The new law, however, permits firms to offer services in Ohio if more than 50% of the trustees in an employee stock ownership plan (ESOP) are registered design professionals, clearing the way for majority-owned or even 100% ESOP-owned architectural and landscape architectural firms.

SB 225 passed both chambers in the General Assembly unanimously and was signed by Governor Strickland on March 21, 2008.

Ohio ESOP Companies win Awards

Allied Mineral Products has won the 2008 Ohio ESOP Company of the Year award from the Ohio/Kentucky Chapter of The ESOP Association.

Allied Mineral Products is a leading producer of monolithic refractories with over 360 employees worldwide. Headquartered in Columbus, the firm is one of Ohio's oldest ESOPs. Its ESOP was established in 1976.

The ESOP Communications Committee, launched in 2003 at the beginning of a period of rapid growth, uses small group meetings to communicate ESOP benefits and sponsors programs of New Participant Training and Line of Sight Training which links individual actions to the company's performance and individual rewards.

Janotta & Herner has won the 2008 Group Excellence Award from the Ohio/Kentucky Chapter of The ESOP Association.

Janotta & Herner's Communication Committee was started in 2005 with the mission of raising ESOP awareness among the firm's 170 employees through information, education, service and events including contests, a newsletter, payroll stuffers, ESOP trivia puzzles and community service projects.

Allied Mineral won the 2008 Ohio ESOP Company of the Year Award. Pictured is their ESOP Communications Committee (top left).

The ESOP Communication Committees at Janotta & Herner, Inc. in Monroeville is the 2008 Group Excellence Award winner, Ohio/Kentucky Chapter of The ESOP Association (left). (Photo courtesy of the Ohio/Kentucky Chapter of the ESOP Association)

Deb Stottlemyer, YSI, Inc. is the 2008 Employee Owner of the Year, Ohio/Kentucky Chapter of The ESOP Association (above).

Headquartered in Monroeville, the firm is a design/build general contractor of industrial, commercial, institutional, medical and religious projects. It was founded in 1962.

An ESOP since 2000, it went to 100% ownership in 2007.

Deb Stottlemyer of YSI Incorporated has won the 2008 Employee Owner of the Year from the Ohio/Kentucky Chapter of The ESOP Association.

"This means a lot to me, I am honored," explained Stottlemyer, Retirement Administrator at YSI Incorporated, when receiving the award at the chapter's spring conference in Columbus, OH. "YSI embraces a culture which has encouraged me to learn and has always supported my involvement with The ESOP Association."

Stottlemeyer has been a member of YSI's Finance Team for 30 years, serves as an ESOP Trustee, is a member of the YSI ESOP Administrative & Communication Committees, and served two terms as an employee-owner on the company's board of directors. She also served two terms as President of the Ohio/Kentucky Chapter of The ESOP Association.

"I am humbled," she added, "because there are many great ESOP companies out there and all of you have an Employee-Owner of the Year at your company."

YSI Incorporated, a 29% ESOP-owned firm headquartered in Yellow Springs, is a global technology leader in environmental solutions and services. **OAW**

Co-op Improves Quality of Caregiving in Wisconsin

Margaret Bau

By the year 2030, about one in five Americans will be over the age of 65. In many parts of the rural Midwest, this is already true. The fastest growing segment of the population are those aged 85 and over. And people are also surviving injuries and illnesses that in previous decades would have been fatal.

These trends have profound implications for how we care for our parents, each other, and ourselves. Almost 55% of those aged 85 and over need help with the basic activities of daily living such as bathing, grooming, toileting, and getting around the house. Others need assistance with preparing meals, housekeeping, and managing medications.

Needing care does not mean a one way ticket to a nursing home. Nationally, only 18.2% of those aged 85 and over (and 4.5% of those aged 65 and older) live in nursing homes. With a little assistance a few hours a day, most seniors can live in their own homes. With consistent and reliable help to get ready for the day, people with disabilities can enjoy independence and participate in the workforce.

Cooperative Care employee owner Pam Swendryzynski assists client in making cookies (photos courtesy of Cooperative Care).

The Labor Reality

There are individuals who have a desire to care for others. Caregivers describe it as a vocational calling or their life's mission. But the sad fact is that individuals cannot pursue a vocation of home caregiving without plunging themselves and their families into poverty. Nationally, the median wage is $8.54 per hour. Most caregivers receive no health insurance or benefits. Some do not even earn workers compensation. (Technically, some homecare is considered domestic labor and therefore exempt from workers compensation coverage.)

Labor economists refer to home care as a pink collar labor ghetto. Nine out of 10 caregivers are women. Due to the nature of homecare, injury rates are high. Most elders or people with disabilities request care early in the morning or in the evening, making it difficult for caregivers to piece together a 40 hour work week.

Caregivers report that some in society look upon their work as menial or even unskilled. Nothing could be further from the truth. Consider the psychology of negotiating with a senior confused by Alzheimer's disease or comforting a young man coming to terms with paralysis.

With these economic disincentives to pursue home caregiving as a career, is it any wonder that 40-100% of caregivers quit every year? Most entry level caregivers last less than three months on the job.

This labor force turmoil is startling; especially since research shows that for frail elders, quality of life is dependent upon developing a long-term relationship of trust between a caregiver and care recipient. How can an elder feel at ease when her front door becomes a revolving door for well intentioned but underpaid caregivers?

Something Special in Wisconsin

Something special is quietly happening in Wisconsin that may transform the way homecare is delivered – worker cooperatives of home caregivers.

Midwesterners are familiar with the co-op model for vital services such as marketing milk, acquiring electricity, and accessing financial services. Now add to that list the provision of homecare to the elderly and people with disabilities.

As with any cooperative, the members own the organization, they have a democratic voice in setting policies, and all benefits return to them. Worker cooperatives tend to be flat organizations that keep overhead to a minimum. Co-ops need not make a return on investment for external shareholders or pay royalty fees to a national franchise.

These structural elements allow worker co-ops to maximize caregiver wages and benefits while delivering services at market rates. Nationally, the average cost to consumers for personal care is $19 an hour and $18 an hour for chore services.

The co-op structure also facilitates decision making and leadership among caregivers who know firsthand what is happening in the homes of their clients.

A Small Town Lights the Way

Wautoma, Wisconsin, (population 2,000) is home to America's first rural worker cooperative of homecare providers. Inspired by New York City-based Cooperative Home Care Associates; Cooperative Care opened its doors in 2001. The co-op's 85 member-owners care for over 120 people in three counties.

Most Cooperative Care member-owners earn $10.60 an

hour – a full $2 an hour more than the industry median. Cooperative Care members have workers compensation. Depending upon the number of hours worked, members also enjoy benefits such as health insurance, time and a half pay for holidays, mileage reimbursement, and two weeks of paid personal time.

Since opening for business, Cooperative Care has been a financial success. Each year the co-op has returned patronage refunds (profit sharing) to members in proportion to the number of hours worked. Over the years, those patronage refunds have ranged from an additional $0.58-$1.50 per hour worked.

No one enters the homecare profession with visions of getting rich. But for the members of Cooperative Care, the combination of wages, benefits, and patronage refunds totals roughly $13.50/hour. Not bad for a county with a per capita income of $22,220 a year.

Another Co-op Is Formed

The success of Cooperative Care inspired another community effort to create a homecare worker cooperative, this one based in Appleton, Wisconsin. The Circle of Care Cooperative commenced operations in April, 2006. The co-op is owned by 10 members who care for 25 elders and people with disabilities.

The Circle of Care Cooperative serves a mix of urban and rural areas in the Fox Valley, a rapidly growing region of about 600,000 people. This cooperative also started with experienced caregivers who provide homecare to low income elders and people with disabilities.

The Circle of Care Cooperative has contracts with two surrounding counties and subcontracts with an established home health care agency. In addition, it markets itself to people who pay for services out of their life savings or through long term care insurance.

In the Fox Valley, the Circle of Care Cooperative entered into a market already served by a dozen existing agencies. Some of those agencies are long established nonprofits; others are start-up for-profit franchises. But all the agencies face a similar dilemma – recruiting and retaining caregivers. Being member-owned, the cooperative enjoys a competitive labor advantage.

It's about Respect

But it is more than higher wages, benefits, and patronage refunds. Caregivers desire respect as professionals.

In our society, small business ownership is esteemed. Being an owner of one's livelihood carries a level of pride and responsibility. It is the difference between being a laborer and a craftsman, the difference between carrying out orders and controlling one's own work.

Labor research suggests that front line workers want a voice in decisions that affect them. The worker cooperative structure fosters a climate of initiative and leadership.

The psychological conversion from being an employee to being an owner is not easy. Members will need continuing co-op education and leadership training. But it is worth the investment.

Some may wonder if low income women with limited formal educations are up to the challenge of owning their own agencies. The experience of agricultural and rural electric cooperatives shows that they are. Fifty years ago, few farmers had more than a high school education. Through skills developed while serving on cooperative boards and committees, many rural residents assumed leadership positions on school boards, county boards, and the state legislature. Homecare worker co-ops could be a vehicle for low income women to become more engaged in their communities.

A Sea Change in Wisconsin

Wisconsin is undertaking a major shift in how low income elders and people with disabilities receive care. Historically, Wisconsin had one of the nation's highest number of nursing home beds per capita. But institutionalization is the most costly and least desired way of delivering care. Now the state is attempting to direct more resources towards homecare and to eliminate 2-10 year waiting lists for services.

But without an investment in a stable labor force of caregivers, this admirable program may grind to a halt.

Currently the reimbursement rates that Medicare, Medicaid, and state programs pay to homecare agencies is too low to cover rising business liability insurance, workers compensation, and health insurance costs. Co-ops render the biggest bang for the public buck, but even co-ops have a point at which they will be forced to limit the number of low income clients they can serve.

A Win-Win Situation

From a public policy standpoint, homecare worker cooperatives are a win-win situation.

For families seeking homecare, they can take comfort that their life savings are directed to the people who provide care, not lining the pockets of corporate investors. For citizens paying taxes to care for low income individuals, they can be assured that their public dollars are going directly to caregivers.

For caregivers, the co-op model offers the highest level of wages and benefits given market constraints and reimbursement rates. Fair pay, benefits, and a voice in decision making allow caregivers the opportunity to make homecare a career, not just a job until something better comes along.

Most importantly, for adults with disabilities, dependable caregivers mean independence and the ability to get to work everyday. For elders, a relationship can be built with the same caregiver, resulting in an improved quality of life.

Margaret Bau has been a Cooperative Development Specialist with USDA Rural Development in Wisconsin since 1998. **OAW**

Homecare Co-op Builds Social Capital

Building trust, participation and networking in the industry are how cooperative home care members help their enterprises and their communities. Wilson Majee's comparative research into the construction of social capital by two successful, well-managed, small home-care businesses in rural Wisconsin, one a cooperative, CHS, and one a conventional firm, JBS (both names are fictional), clarifies for academic researchers how social capital is constructed and by the way explains how the "ownership advantage" was developed in the cooperative.

Majee presented findings of his 2007 Ph.D. dissertation at a March 11 OEOC Faculty Associate Program. Majee's dissertation was written in the Development Studies Program at the University of Wisconsin.

His in-depth interviews with homecare workers, enterprise managers and clients revealed how responsibility, commitment to the job and trust can be created within the employee-owned firm.

CHS was a worker-owned cooperative started in 2001. At the time of Majee's study, it had 81 member owners at two skill levels and four professionals who administered the coop but were not members. The annual membership meeting elected the coop board president and directors. The conventional firm, JBS Placements, was founded by the president and owner, managed by vice presidents and directors, and supervised by home coordinators, with homecare workers at the bottom of the organization.

The cooperative advantage began with selection. The coop recruited new workers and potential members by asking them to pledge support for values. Among these were equality, respect, listening, fairness, consideration, thoughtfulness, professionalism, determination, openness, generosity and responsibility to others. No such explicit commitment to values was asked of the conventional firm's employees.

Next came building trust. Trust is particularly important in the home-care business, since most clients require care from only one worker at a time, and workers are isolated from each other. The workers travel from one client's home to another's, rarely encountering more than one colleague at most. It is hard to build trust when workers do not even meet.

Neither at JHS nor in most of the CHS employees' previous work for a county program did the home care workers have much opportunity to meet. By contrast, CHS had the explicit goal of teaching trust and it used committees, training, and social activities to help members get to know each other better.

Communication was a key to building trust between the CHS workers and their professional administrators. Almost all CHS workers felt that the administrators were accessible, and that they were informed and consulted about business policies and practices through various methods. JHS supervisors and managers felt there was a free flow of information via telephone and record-keeping, but JHS workers did not agree. They had been surprised by a recent letter informing them of a wage reduction of $1 per hour. The lack of consultation about the decision or even any advance explanation was seen by most of the workers as reducing trust in the company's leadership, which did not seem to appreciate their efforts.

At CHS, participation was encouraged and could take many forms. It began with confidence building through a continuing education program but also included picnics for all the members, members giving training sessions at the cooperative and presentations at conferences, these last identified and developed by the executive director. At JHS, supervisors held meetings in clients' homes and workers were expected to obtain training on their own at sessions organized by the county. Opportunities to participate were almost nonexistent.

Networks, connections with people in other organizations at different levels, such as countywide or statewide professional organizations, constituted another basis for growth and satisfaction among coop members. For some members, Majee writes, "…joy comes from the mere fact that the cooperative has given them the opportunity to interact with people they would otherwise never have met."

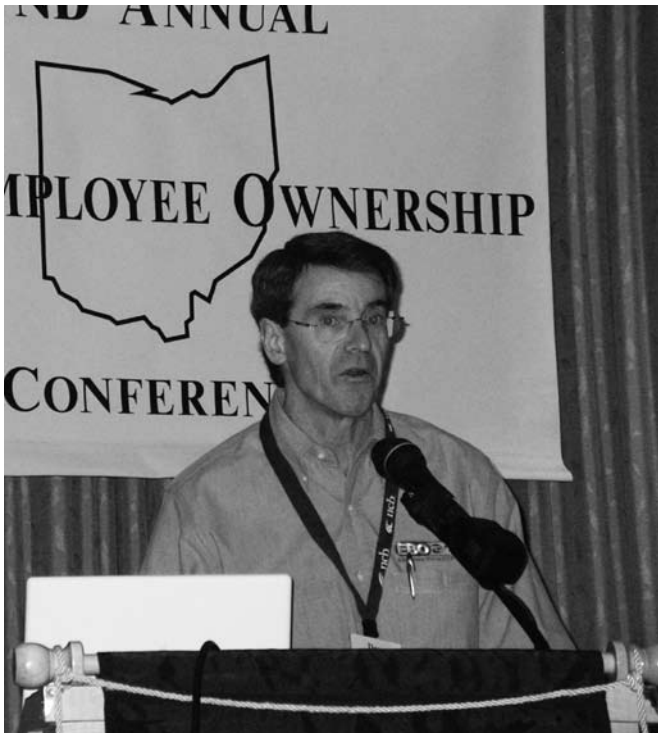
The networks included more than just professional contacts. Coop members built connections with grocery stores or banks where they escorted clients to shop or do business, even making connections between people in the community, who then helped each other directly. These opportunities were almost totally lacking for the ordinary home care workers at JBS. Some of those who held positions of authority at the company, however, felt that their status and recognition in the community had been enhanced by their positions.

Majee's complete paper is available on the OEOC website at http://dept.kent.edu/oeoc/oeoclibrary/WilsonMajeeCoopArticle.pdf. **OAW**

Wilson Majee (standing) talks co-ops at OEOC Faculty Associate Program (photo by David Baird).

"...Why would you want to turn your employee-owners into venture capitalists?"

Dave Heidenreich, Chairman and Chief Technology Officer, EBO Group
Keynote 22nd Annual Ohio Employee Ownership Conference
Friday, April 18, 2008



I was asked to share with you some of the things we have been doing to reinvent our company these last five or six years, and to turn our employee owners into venture capitalists. First, I would like to introduce you to EBO Group. You have known us for most of our association with ESOPs as PT Tech or Power Transmission Technology. We became an ESOP in 1990. We have 62 employee owners. And in 2006, we changed our name to EBO Group for reasons that you will understand by the time I finish.

What do we do? In the first couple of years in business, we solved a major problem in underground coal mining machinery. We figured out a way to absorb the shock loads in the cutter head drives, increasing the safety, reliability and productivity of the machines. That led us deep into the underground mining industry, developing clutches and brakes for all manner of machines.

We decided as long as we were underground, we might as well tackle tunnel boring machinery, and we developed a hydraulic clutch that was used very successfully through the '80s and the '90s. The biggest privately owned civil engineering project in the 20th century was a tunnel under the English Channel. All the machines and the main drives were equipped with our clutches. If you have watched *Extreme Machines* on the Discovery Channel, many of those machines are equipped with our product.

We came above ground in the 1990s and started developing products for the steel and other heavy industries. We really like big, ugly, awesome equipment! Throughout the 1990s mining, steel and tunneling accounted for over 90% of our business. If we look at our sales for the first 20 years through 1998, we only had two down years, but then we hit 1998, and globally things started to change. Jobs started going overseas. We had customers going out of business faster than we could develop new products to replace them, so we started looking like a lot of companies in Ohio that were focused on rustbelt industries.

Two or three years into this cycle, we figured trying to grow our business in a declining market was not the smartest thing we could be doing. So we decided to focus our efforts into growth markets. The first growth market we went after was recycling equipment—big machines that grind up waste for landfills for biomass. We developed a system that connected engines up to 1600 hp to the grinding head that does all of the work, and we went from being a very small player six years ago to dominating, with 90% of that market. Again, you see our love for big, ugly, awesome equipment!

In 2002, the employee owners of PT Tech did something extraordinary. They became venture capitalists. They started a new venture in a new market with different technology—we founded Transmotion Medical. We hired the right people. We gave them the tools they needed to develop medical chairs that convert into stretchers for procedures in hospitals and surgery centers, and in five years, they have gone from nothing to the premiere product in the market.

We discovered that our employee owned culture was an awesome place to start new ventures. By the way, the recycling market and medical market now account for more than half of our business. Instead of following the trend of a lot of Ohio manufacturing companies, especially those focused in the rustbelt industries, we will come close to tripling our business in a five year period by focusing on new markets and by launching new ventures.

So why would you want to turn your employee-owners into venture capitalists? Faster growth—if you're not happy with the growth that you have, maybe you should be looking at doing something like this. Greater

profits—we have definitely seen greater profits focusing on growth markets and doing some reinvention. Job creation. Excitement—there is definitely a lot of excitement when you start something new within your organization. Diversification—if you are stuck on one market and riding the cycle of that market, diversifying can definitely help. It can especially help out in the shop where peoples' jobs are dependent on a steady flow of work. By stretching, by diversifying, you can switch the shop employment from one side of the business to the other side, and we have seen a real benefit in doing that. But the number one reason, the thing we all love, is to watch our stock grow, and it is a great way to grow your stock value. These are all good reasons for thinking about starting a new venture within your ESOP.

Most new ventures fail as they go through the process of imagining, incubating, demonstrating, market entry and finally, growth and sustainability where you are actually making money. Each of these phases is packed with places where the project can fail, and most do. But ESOP companies have a natural advantage that no other way of starting a company has.

"...ESOP companies have a natural advantage that no other way of starting a company has. "

Number one: A lot of them have excess capital. Where are we going to spend our money next? ESOP companies have an existing business structure that can support an entrepreneur or an entrepreneurial team working on a new project. Typically, ESOP companies exhibit teamwork well above what a normal company has, especially if you have a collaborative, participatory program in your ESOP.

But here is the magic. When you start a new company within your ESOP, every ESOP participant has a piece of the action. They have a natural desire to see this thing succeed that provides exceptional support for those trying to start a new business. We found with Transmotion Medical that we could send the two people we had start this business anywhere in the company to get any kind of help they needed, and they got it freely with great enthusiasm. The odds of success of starting a new company within an ESOP should be significantly better than in other places. Typical incubators in old factories, incubators in university settings, new ventures within non-ESOP companies cannot match this list of advantages.

Where do you find ideas for new ventures? Universities—we ended up finding some technology out at Bowling Green State University that had not been commercialized, and we partnered with them to do development. NASA in Cleveland has an office that looks for people to commercialize ideas they have come up with. We are actually collaborating with NASA and the University of Toledo on a new offshore wind turbine project where we will be making a couple key components.

Venture capital conferences—we are just beginning to explore this avenue. Jump Start is a group in northeast Ohio that is supporting the idea of venture capitalists coming together with entrepreneurial people trying to get companies started. They are supporting the entrepreneurs in many ways, including bringing them the management expertise they need. We have had some discussion with Jump Start and they are interested in working with us as an incubator in future projects.

Contact your local economic development people; they know what is going on in the community. They can be a source of ideas. But do not ignore your own employees. The idea for starting Transmotion Medical did not come from the top. It came from a new employee who left a company that had been closed down in our community, and he said, "You know, you guys could make the same stuff that our company did—medical equipment—and the guru that knows how to do it is looking for a job." That was the start of Transmotion Medical. The number one place innovation comes from is the employees. This is not ESOPs, this is just in general. Now, if you have an ESOP company, you should really be listening to your employees. Before I leave that subject, you should note that whatever you do in looking at new ventures, you should make sure they align with the strategic plans for your business.

Funding—how do you fund new ventures? For five years we funded all our new venture work with our employee owners acting as our venture capitalists. We have done it successfully, and the growth we have had has been challenging financially, but it is a good challenge. Venture capital and angel capital is something we are beginning to explore. The federal government has Small Business Innovation Research awards to help develop new technologies and new businesses. And the State of Ohio funds new technologies, especially new technologies that will create significant jobs in the state.

We have been involved with power and energy since the beginning of our company. About four years ago, we recognized that the fastest growing part of the power and energy industry was renewable energy, so we started studying how to participate in that market. Two years ago, we founded Innovative Power and Energy Storage Solutions (IPESOL). At the same time, we recognized that PT Tech was no longer the proper umbrella organization for the direction we were headed, and we changed our name to EBO Group, which stands for Excellence By Owners.

The results of IPESOL have been four patents pending on some interesting solar technology and a book called *Exponential Solar*. It is the first book that really shows how renewable energy ultimately replaces all the fossil fuels we use and the importance of energy storage. In writing the book and learning about the renewable energy market place, we stumbled upon a technology at Bowling Green University that had not been commercialized and we felt it would play a very important part in the future. So we partnered with Bowling Green, and went after state

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Eight Ways to Foster Innovation

Lessons from the EBO Group

Karen Thomas

"Innovation starts at the top and flourishes at the bottom." explained Dave Heidenreich, Chairman of EBO Group, to participants at the 2007 ESOP Board of Director's Forum, and proceeded to tell a story.

"Big ideas have blossomed at our annual off-site strategic planning gathering. It's my favorite three days of the year. We ask ourselves where we are going and how we are going to get there. Back in 1989, for example, we decided to start an industrial park. Back in 2003 we made the decision to be entrepreneurial and innovative. So, where did we get the idea to reinvent our company? The idea came from a new scheduler in our purchasing department."

EBO Group has built a culture of ownership and teamwork that sparks innovation. Here is a description of eight components of the firm's innovative culture, as outlined by EBO leaders at various ESOP forums, including President Keith Nichols and VP Gregg Cullings.

Share Ownership: Through the ESOP, everyone who works at EBO shares ownership of its four subsidiaries, which are located together under one roof. Shared ownership encourages cross-company cooperation and the sharing of ideas for successful product development and commercialization.

Build an Ownership Culture: EBO Group's ownership culture is built on the principles of interdependence, ownership of one's job, entrepreneurial thinking, respect for the ideas of others, and working toward common goals highlighted in Stephen Covey's book, *The Seven Habits of Highly Effective People*. New employees participate in a *Seven Habits* class taught each year by volunteer seasoned employees who lead a discussion of one chapter per week during the lunch hour.

Include everybody in strategic planning: The company developed an Excellence-by-Objective or EBO process for identifying innovative ideas and encouraging employees' ownership of their work projects. On a quarterly basis each employee sets goals for what they can do or change about themselves or their work areas to build their career and improve the company. Each meets quarterly with his/her immediate supervisor to select up to ten priorities and review past efforts. As VP Gregg Cullings described it, "Our EBO process is classic win-win. It's a way for the individual to be proactive and have their own strategic plan. It's relationship-building—managers listening to employees. It benefits the company by building a better employee and encouraging a continual flow of innovative ideas."

Celebrate risk-taking and failure: Employees at EBO Group have permission to fail once in a while in their efforts, because after all, 90% of new products fail in their intended markets. "We laugh at ourselves and use humor to point out failures we wish we had avoided," explained President Keith Nichols. "We keep track of mistakes and give out mock awards for mistakes at our annual meeting. We celebrate failure as a way of moving forward."

Educate from day one: Each new employee plays the EBO Scavenger Hunt during his/her first quarter on the job by hunting down the answers to a list of more than 70 questions on the company's history, technology, products and people. The list is included in the new employee packets received by each new employee on the first day of work. New employees must meet with dozens of employees throughout the office and plant work areas in order to find the answers. They sit down in a get-acquainted session with Heidenreich to review their completed surveys. Employees are encouraged to read, and the company supports employees' efforts in higher education and training seminars.

Collaborate cross-functionally: "We are in business to solve technical problems for our customers and this type of work is in itself a cross-functional project," explained Nichols. "Each employee realizes it is in their best interest to help each other solve problems. We consider ourselves one team."

Company meetings unleash the innovative energy of everyone in the company. Engineering meetings, held every two weeks for project oversight, include representatives from sales and production. Strategic teams, whose members bring different talents, are organized to develop long term projects. All-employee lunch meetings are held bi-weekly and paid for by the company for the sharing of business information and the celebration of birthdays, anniversaries, success stories and praise of employee-owners' work to achieve desired company outcomes, even if they have failed. The company has a lunchroom and gathering place, strategically placed between the plant and the office, which has been enlarged as the company has grown so all can break bread together.

Improve business systems: Continuous improvements in sourcing, receiving, production, shipping, accounting, work flow, and other areas has helped improve our bottom line and simplify our business," explained Cullings. "ISO 9001-2000 implementation helped us recognize and react to changes in our business in an organized manner. We also use consultants to assist us to develop innovations in many areas such as product development, accounting, HR, ERP integration and implementation, ISO implementation, lean enterprise and strategic decision making."

Share success: Product innovation is promoted through rewarding individuals for patents on new products and innovations that contribute more than $200,000 in annual sales. "In our company's history, we have been granted 21 patents," explained Cullings.

Employee-owners share in the company's financial success through participation in the ESOP, which was established in 1990 to gradually cash out the firm's founding investors, maintain the company's independence and attract top talent. For participants, the ESOP offers stability and job security plus long-term appreciation of the company's annual contribution ranging up to 20% of individual earnings to each ESOP account. Employees also earn short-term rewards in the form of a yearly team bonus and dividends on their stock in the ESOP.

Karen Thomas is Associate Director of the OEOC. OAW

OEOC Annual Conference Continues to Grow

For the second year in a row, attendance topped 400. Some **430** people registered for the **22nd Annual Ohio Employee Ownership Conference: Job Retention in a Global Economy.** After welcoming remarks from **Leah Anglin-Walsh, Ohio Department of Development**, and **Russ Pry, Summit County Executive**, this year's conference featured **Joseph Cabral, Retired President and Chairman of Chatsworth Products and current Chairman of The Employee Ownership Foundation,** and **Dave Heidenreich, Chairman and Chief Technology Officer of EBO Group** as keynote speakers. Their edited remarks appear elsewhere in this newsletter or you can watch their speeches on the OEOC's website at www.kent.edu/oeoc. The morning round of concurrent workshops offered a choice of seven panels, featuring employee owners as well as professional service providers. The panel on the *ABCs of ESOPs for Employee Owners* featured **Don Israel, Benefit Concepts Systems** and **Ben Wells, Dinsmore & Shohl.** The panel was moderated by **Gregg Cramer, Greater Akron Chamber of Commerce**. People attending the panel on *Who, How and Why of ESOP Communication* heard **Laurie Schafer** and **Tom Oles** of **The HDH Group, Kathy Staarmann** and **Tom Gruber** of **CareStar, Mary Rider** and **Marlene McCann** of **Kemner-Iott Agency**, and **Mark Krynock** and **Nick Zito** of **Software Solutions**, discuss their companies' communication goals and strategies. **Jim Fuller, Appleton,** served as panel moderator.

The topic of *Best Practices for Board Governance in ESOPS* was handled by **Carolyn Long, Rable Machine; Tim Jochim, Kegler, Brown, Hill & Ritter Co.,** and **Jim Anderson, OEOC.** The panel was moderated by **Bob Taylor, Falcon Industries.** The technical panel titled *Receive Your ESOP Benefit Without Leaving the Company: Age 55 and Other Diversifications* was moderated by **Scott Hamner, Findley Davies, Inc.,** and featured **Barbara Clough, Blue Ridge ESOP Associates; Bill McIntyre, OEOC,** and **Pete Shuler, Crowe Chizek and Company**. The professional panel of **John Banasek** of **Prairie Fiduciary Advisors**, **Neil Brozen** of **BNC National Bank**, **Lisa Durham** of **Krieg Devault** and **Jeff Gelburd** of **Murray Risk Management & Insurance** dealt with the issue of *ESOP Fiduciary Responsibility.* Serving as moderator was **Jim Merklin, Bober, Markey, Fedorovich & Company**. The theme session on *Growing Ohio's High Road Jobs in the Global Economy* featured the two keynoters, **Joseph Cabral** and **Dave Heidenreich,** along with **Jimmy Allen, Appleton and Steelworkers Local 266** and **Mary Landry, Maryland Brush.** Moderating the panel was **Tara Brown, Office of the Ohio Treasurer.** Using ESOPs in succession planning was discussed in the panel *Selling to Your Employees Through an Employee Stock Ownership Plan*. The panel consisted of **Mary Giganti** of **Waldheger Coyne**, **Davin Gustafson** of **Apple Growth Partners** and **Bill Rosenberg** of **Columbia Chemical.** The moderator was **Richard Tanner, Ownership Advisors**.

Lunch featured a presentation by **Tara Brown** of the Ohio State Treasurer's Office on the topic of *GrowNow*, the Treasurer's linked deposit program that helps Ohio's small businesses borrow at interest rates 3 percent below the norm. **Ohio Treasurer Richard Cordray** and his office are looking for ways to help ESOP companies take advantage of the program. **Palmer-Donavin Manufacturing Company**, Columbus, received a **2008 Ohio Employee Ownership Award** for *Getting Your ESOP Off to a Good Start*, and **Carbo Forge, Inc.,** Fremont, received the award for *Twenty Years of ESOP Success*.

The rest of the day featured discussions ranging from ESOP technical issues to issues of ownership culture. **Jay Simecek, OEOC,** led a session that traced the *Steps to an Ownership Mentality.* Moderated by **Floyd Griffin, Patio Enclosures**, the panel on *Communication and Education for Fun and Profit* featured **Chris Aguilar** and **Amanda Lesko, R.J. Martin Electrical Contracting**, **Dan Matson** and **Carrie Stieber, Janotta & Herner; Renee Matteo and Caryn Weinberg, TIS, and Don Vollmar, Lockrey Manufacturing.** Various ways of communicating with employee owners about profitability were discussed by the panel *Increase Profits! Let's Talk About It*. Panelists included **Doug Bosnik** and **Mark Husted, Buckeye Corrugated**, **Lee Miller, Prentke Romich Company**, and **Susan Probert, Voto Sales.**

A technical session on *ABCs of Stock Valuation for Employee Owners* was moderated by **Kent Mann, Thompson Hine,** and featured panelists **Merri Ash, First Bankers Trust Services, Scott Miller, Enterprise Services,** and **Radd Riebe, Stout Risius Ross.** Information on the Pension Protection Act of 2006 and the latest Court, IRS and DOL rulings was provided by **David Ackerman, Morgan, Lewis & Bockius; Marilyn Marchetti, GreatBanc Trust Company,** and **Dale Vlasek, McDonald Hopkins,** on the *ESOP Legal Update* panel. **Phil DeDominicis, Menke & Associates**, moderated. Folks attending the panel on *Employee Buyouts as a Job Retention Strategy* heard from two experts in putting together employee buyouts: **Deborah Olson, Law Offices of Deborah Groban Olson** and **William Vogelgesang, South Franklin Street Partners**. Serving as moderator was **Steve Clem, OEOC.** The panel on *Selling to Your Employees Through a Worker Cooperative* was designed for companies too small for an ESOP. Co-op representatives on the panel included **Todd Brewster, Select Machine** and **Leslie Schaller, Casa Nueva Restaurant. Mark Stewart, Shumaker, Loop & Kendrick,** provided legal expertise. The panel was moderated by **Rod Kelsay, Mid-America Cooperative Council.**

After a coffee break sponsored by **SES Advisors,** the last round of concurrent panels began. **Doug Romain, Bardons & Oliver; John Keen, Voto Sales,** and **Ben Adams, ComDoc,** told attendees *What Employee Ownership Means to Me.* The moderator was **Renee Bissett, ACRT.** Participants interested in *Strategies to Avoid a Have/Have-not Culture* heard from **Rick Egbert, Carbo Forge, David Johanson** of **Johanson Berenson, and Joe Marx, Principal Financial Group.** The discussion was moderated by **John O'Brien, Duff & Phelps.** Partially employee owned companies have unique problems and challenges. In the session titled *The "Less-Than-100% ESOP" Forum for Leaders and Managers,* free-ranging discussion was facilitated by **John Habanek, The Great Lakes Construction Company, and Jim Anderson, OEOC**. Repurchase obligation in ESOP companies is a fact of life. Panelists **Ellen Gealt, ESOP Economics; Rick Schlueter, ComStock Advisors and Jim Steiker, SES Advisors,** dealt with this issue on the panel *Making Sure Participants Receive Their ESOP Benefit: Managing the Repurchase Obligation.* Serving as moderator was **Tina Fisher, SES Advisors. Joe Cabral, The Employee Ownership Foundation; Takao Kato, Colgate University; Rick Schroath, Kent State University,** and **Jacquelyn Yates, OEOC,** presented on *The Business Advantages of Employee Ownership: What Does the Research Say?* **Bruce Reynolds** of the **U.S. Department of Agriculture** moderated.

At the closing reception, sponsored by **National Cooperative Bank**, the discussion continued in a relaxed atmosphere and featured a spirited presentation of support for employee ownership by **U.S. Representative Betty Sutton, 13th District of Ohio. At the end of the day, our position as the best one-day ESOP conference in the country was strengthened! We thank everyone who helped make the conference the largest employee ownership event in the region, and the second largest in our history, and we look forward to seeing even more folks next year as we celebrate the 23rd Annual Ohio Employee Ownership Conference to be held Friday, April 17, 2009**. Mark your calendar! OAW

Highlights from the conference (clockwise from left): Ron Calhoun from Palmer Donavin (left) receives the award for Getting Your ESOP Off to a Good Start *from Jim Anderson of the OEOC; Rep. Betty Sutton at the closing reception; The Carbo Forge team accepts the award for* Twenty Years of ESOP Success. *from l to r, Rick Egbert, Ken Foos, Alex Liskai, Dan Berger, Jeff Woitha, Mike Mier, Juanita Wolf, Todd Parish, and Mark Horn; A look at the overflow crowd at the morning plenary session.*

"When you have employee trust, employees will do anything for the company to make it successful."

Joseph Cabral, Chairman, Employee Ownership Foundation
Retired President and Chairman, Chatsworth Products, Inc.
Keynote 22nd Annual Ohio Employee Ownership Conference
Friday, April 18, 2008

We are here today to talk about employee ownership: jobs, innovation and the global economy.

Our mission at the Employee Ownership Foundation, which is an affiliate of the ESOP Association, is to promote employee ownership. Why? Our core cause is the belief that employee ownership improves American competitiveness, increases productivity through greater employee participation and strengthens our free enterprise economy.

National statistics suggest that employee ownership is growing. The National Center for Employee Ownership recently published its 2008 update which indicated that in 2007 there were 11.2 million participants in ESOP plans compared to 10.5 million in 2006, and 7.8 million in 1995. Assets in ESOP plans have also grown, and this is an even more remarkable statistic. In 1995, there were about $250 billion in ESOP plan assets. In 2006, there were $675 billion. And in 2007, there is $928 billion of assets. The number of plans has also grown from 8,000 in 1995 to nearly 10,000 today. ESOPs clearly are growing and they are growing successfully. If Ohio had only employee owned companies, it would be a more highly successful state economically, and all that movement to the Far East would disappear.

We do an annual survey of our ESOP Association membership and it has some interesting results as well. It found that 89% of those surveyed felt that creating an ESOP was a good business decision and had helped their company. Seventy-two percent indicated that it had improved the performance of the company. Eighty-two percent said that revenue had increased from the prior year. Seventy-two percent reported that profitability had increased since the prior year and sixty-eight percent reported that ESOPs improved the overall productivity of their companies. It also pointed out an interesting statistic on participation, that 47% of these companies created an employee participation program after becoming an ESOP. Maybe there is a correlation.

There are a couple of external studies that also verify the performance of ESOPs. A renowned study that was conducted for the period of 1987 to 1997 was done by Drs. Joseph Blasi and Douglas Kruse of Rutgers University. These professors paired up ESOP companies with their non-ESOP counterparts. They looked at markets, and they looked at size of company. The only differentiating factor was whether it was an ESOP company or not. They followed the results of those companies and again found some pretty astounding results, the first of which is that the ESOP companies increased sales, employment and sales per employee by 2.3 to 2.4% per year over what would have been anticipated had they not had an ESOP. Now, 2.3 or 2.4% does not sound like a lot. But if you take that over a decade, you are approaching a 30% differential between the ESOP company and its non-ESOP counterpart in annual sales. Seventy-eight percent of the ESOP companies stayed in business during that decade as compared to 62% of their counterparts. So, the longevity of ESOPs also is there. Also ESOP companies tend to remain independent companies rather than being absorbed into a larger firm or acquired in some other way.

A very interesting side note is that the ESOP companies were more likely to have other retirement plans, such

as 401Ks and profit sharing plans.

There is also a well-known survey that came out of the State of Washington. They surveyed ESOP companies and compared them with matched non-ESOP companies in the state and found that the ESOP companies paid better benefits and had twice the retirement income for employees. There are numerous other studies that reached similar conclusions.

So we have a tool that really works. Employee ownership works and you folks are the testimony that it works. The State of Ohio statistics on performance indicate employee ownership works. But we are not penetrating the U.S. We are on the fringes from the standpoint of professionals engaging with employee ownership being the preferred method of ownership.

Steven Freeman, a professor at the University of Pennsylvania, has just done an extensive review of the past 30 years of research on employee ownership. Dr. Freeman confirmed that employee ownership, in fact, increases productivity, profitability and longevity. Employee ownership combined with participation produced even greater results, and I think those who have a participative management style probably have seen the benefits of that. But what he also found was that there is little known about how employee ownership firms are managed. There are few projects that even attempt to justify the societal claims that we make, that there is social justice in what we do. There are concerns and skepticism among the economists, managers and financiers, that need to be directly addressed and, quite frankly, we have not done a good job addressing their concerns.

So, employee ownership remains on the fringe of the social consciousness and academic literature. We are going to try to change that at the Foundation, working with others that are involved in employee ownership, and it is going to start with a roundtable at the University of Pennsylvania next month. We are going to explore with academic folks, professional folks and company folks how we can advance employee ownership in our country.

So, what can ESOPs do and what can't they do? Let me share with you a little of my experience as President of Chatsworth Products. It's something for people who are contemplating ESOPs to think about. First, an ESOP is not going to fix your company's problems. If your problems are systemic, if you have a bad market, if you are having trouble finding new markets and new products, if your CEO just is not providing leadership, if there is no vision for the company or if you just have a bad culture, whatever that might be defined to be, an ESOP is not going to fix that. But what ESOPs can do is support a participatory culture. The ESOP brings alignment between the employees and the shareholders. It becomes magical how the success of the company becomes the success of every employee owner. It can create greater employee involvement and commitment, because employees have a greater stake in the company. And it can enable the company to out-perform its competitors, as the survey results certainly showed. You do that through increasing productivity and increasing operational effectiveness by being creative in every part of your business. The accounting department can be creative. The research department can be creative. When people have an interest in thinking about how they can do things better, the results are almost magic. If you also have people who understand the importance of the customer, who provides the bread and butter, that also makes ESOP companies successful. Employees have a stake in making sure that every customer is not just satisfied but, we used to call it at Chatsworth, "delighted." That all results in long-term financial success for an ESOP company.

What you need in an ESOP company is a visionary CEO who is passionate about employee ownership – somebody who walks the talk, who has employee ownership and the sharing that comes with employee ownership as a part of their fabric. They need to build employee trust. Trust is earned, not bestowed. When you have employee trust, employees will do anything for the company to make it successful. The CEO needs a challenging board that, hopefully, will contain some outsiders -- people that he or she sees infrequently, but who bring fresh challenges to the company and to the CEO specifically. The entire employee ownership group of the company becomes a team, and that team supports the vision, mission and core values of the company. In addition, you have professional advisers, the attorneys, the accountants, the evaluation firms, the ESOP plan administrators and so forth. Those folks keep you on the straight and narrow; they make what is a possibility a reality. So choose your advisers wisely. They need to be committed to the company and to employee ownership.

Let me close by reading the shared Vision Statement of the ESOP Association and the Employee Ownership Foundation. This vision was developed by Charles Edmonson and Richard Duffy and then blessed by folks who were corporate members of the chapter counsel of the Association. This is what moved me when I first got exposed to the Association:

> "We believe that employee ownership improves American competitiveness, that it increases productivity through greater employee participation in the workplace, that it strengthens our free enterprise economy and creates a broader distribution of wealth, and that it maximizes human potential by enhancing the self-worth, dignity and well-being of our people.
>
> Therefore, we envision an America where employee ownership is widely recognized as a catalyst for economic prosperity, where the great majority of employees own stock in the companies where they work, and where employee ownership enables employees to share in the wealth they help create.
>
> And we look for our nation to become for the world an example of prosperity with justice through employee ownership."

Joe Cabral is the chair of the Employee Ownership Foundation and has previously served as chair of the ESOP Association. From 1991 until his retirement in 2004, he was President and Chairman of the Board of 100% employee-owned Chatsworth Products. **OAW**

Network **News**

Jet Rubber Day

March 15, 2008 was "Jet Rubber Day" in Portage County in honor of Jet Rubber's 15th anniversary ESOP celebration. Jet's 49 employee-owners, family, community supporters and friends celebrated with dinner, prizes and recognition of their accomplishments since the ESOP was established in 1993. Located in Rootstown, Jet manufactures custom molded goods and rubber-to-metal parts.

"We give thanks to all our employees and retirees for our success," said Tom Smith, Jet Rubber President and CEO, at the celebration. Jet's ESOP Steering Committee of employees and managers was formed in 1991 to explore an employee buyout. Jet employees made the ESOP loan down payment through their profit sharing plan; the OEOC helped with their feasibility study; and help in structuring the ESOP loan came from the Portage County Community Development Block Grant Program, the State of Ohio 166 Loan Program and Bank One.

Employee ownership has helped the firm prosper. Jet's stock has grown almost 300% since 1993. "We have always challenged ourselves to work as a team and do the right thing," added Smith. "and we see a good future for rubber. We will continue to control our destiny, to mold what we do in the future and prosper in a world economy."

Four of Jet's ESOP Steering Committee members accept the Jet Rubber Day Proclamation from Portage County Commissioners. (l to r) Karen Crooks and Mary Parkinson; Portage County Commissioners Chris Smeiles and Maureen Frederick; and additional steering committee members Jeff Nichols, and Thelma Matthews.

SSI Employee-Owner Goes 'Above-and-Beyond'

Mark Krynock, named "2008 Employee of the Year" at Software Solutions for going "above and beyond" in symbolizing an employee ownership mindset, was rewarded with an "above-and-beyond" adventure—a tandem parachute jump at the local airport. Krynock, a senior network specialist with 11 years of service, chairs the ESOP Communications Committee which supports the people side of the ESOP.

"We put the ESOP into all we do," explained Krynock, "and organize events that bring people together, raise awareness, and celebrate our success as business partners." In celebrating the release of a new software product, the committee arranged for an ice-cream truck visit to the company's parking lot. Certified Employee Owner classes include ESOP 101 and Company Financials 101. A week-long Crazy Days event during ESOP Appreciation Month included Twin Day (dress as a co-worker), Pirate Day and Mismatch Day.

"Mark is always willing to do whatever is necessary to solve an issue," explained company president, Terry Moore, "and receives high marks from our customers and his co-workers for his willingness to help." SSI, a 100% ESOP firm in Lebanon, is a provider of financial management software for local governments, nonprofits and utilities. The firm has 33 employees and established its ESOP in 2002.

Palmer-Donavin's "Owners' Manual"

The Communications Committee at Palmer-Donavin has just published the first edition of their *Owners' Manual* quarterly newsletter, which features articles on how their ESOP works, issues facing their business and industry, and customer highlights. Palmer-Donavin became a 100% ESOP-owned firm in 2007 and has 275 employees.

"One of our committee members interviewed a long-term customer about how we provide value for them and why they have been loyal to our company," explained Shawn Richard, HR Manager, "and we also included a message from our company officers about what we are doing to stay competitive." Headquartered in Columbus, the firm is a wholesale distributor of residential building supplies and heating and cooling equipment.

Leading EDGE ESOPs

Eight Northeast Ohio employee-owned firms have been recognized as 2008 Leading EDGE (Economic Development through Growth and Entrepreneurship) Award winners for generating outstanding growth and value. "ESOPs are ideally suited to win these awards," explained Dave Heideneich of EBO Group, as he encouraged leaders of other ESOPs to explore the Leading EDGE program. While ESOPs represent a minuscule percentage of total businesses, 8 of the 94 winners in 2008 were ESOPs; and, in 2007, 9 out of 100 winners were ESOPs.

The Leading EDGE Award, sponsored by *Entrepreneur's Edge* magazine, recognizes mid-market companies in the 17-county Northeast Ohio region

that generate outstanding growth and value for their shareholders and the local economy. Winners are judged on their past three years' financial results, return on shareholder value, purchasing through local vendors, and on spinoffs or new business ventures that contribute to sales.

2008 Leading EDGE Award winning ESOPs include ComDoc, Inc., The Davey Tree Expert Company, EBO Group, Fairmount Minerals, Falcon Industries, The Garland Company, Plasticolors, Inc. and Rable Machine.

ComDoc Earns Recognition

A 2008 Leading EDGE Award winner, ComDoc, Inc., also won the 2008 NEO Success Award, for top revenue and employment growth; and the 2006 and 2007 NorthCoast 99 Award for creating a workplace which motivates top performers. The Success Award, sponsored by *Inside Business*, recognizes overall business success; and the NorthCoast 99 Award, sponsored by the Employers Resource Council (ERC), honors workplaces in northeast Ohio that attract, retain, and motivate top performance.

ComDoc, a 100% ESOP-owned firm headquartered in Uniontown, offers copier, fax and printer equipment sales, services and related products. The company was started in 1955 and their ESOP was established in 1985.

EBO Group's Advanced Energy Grant

EBO Group, also a 2008 Leading EDGE winner, was awarded a $1 million Advanced Energy Grant from the Ohio Third Frontier Commission for its hybrid electric drive project in collaboration with Bowling Green State University and regional manufacturers. EBO Group also won a 2007 eVolution of Manufacturing Award for innovation and growth in developing new products in health care and solar technology, which generated a 30% increase in revenue (see *OAW* cover story). The eVolution in Manufacturing Awards were developed by MAGNET and *Smart Business* to recognize Northeast Ohio manufacturers that demonstrate excellence.

EBO Group, in Sharon Center, produces specialty brakes, clutches, torque limiters, medical chairs, innovative power energy storage solutions and hybrid drives. The ESOP was established in 1990 and the firm is 56% ESOP-owned with 65 employees.

Chuck Burrows, ESOP Committee member at Falcon Industries, makes a food delivery to the local hunger center in Medina.

Falcon Industries' Expansion

Another 2008 Leading EDGE winner is Falcon Industries, a 40% ESOP-owned fabricator of custom conveyor screws and screw flighting, headquartered in Medina. Falcon is growing and has begun construction of a larger, 34,000 square foot manufacturing facility in Medina. They plan to move to their new building by the end of the year.

Falcon's ESOP Committee responded to a recent newspaper story about the critical food shortages at a hunger center in their community by organizing donations of food and cash. The ESOP was established in 2000 and the company currently has 53 employees at locations in Medina and Minnesota.

Rable Machine Leads in Growth

Rable Machine is one of the "Top 25 in Growth" among the 95 Leading EDGE Award winners for 2008. Rable, a precision job shop, has grown aggressively in the last 3-4 years and invested $3 million in new technology supported by adoption of lean manufacturing and cellular manufacturing philosophies. The firm is 100% ESOP-owned and has 72 employees.

"None of our efforts toward growth and change would have worked without the involvement of the people who work here," explained CEO Scott Carter. "As employee-owners they understand the need to focus on our customers and on quality, along with the need to embrace new technologies and approaches. Because of their hard work, their learning and their commitment to mentor others, our business has skyrocketed. We have increased our business with existing customers and gained new customers too."

Headquartered in Mansfield, Rable specializes in C.N.C. Swiss, C.N.C. Turning and Milling and Single Spindle Brown and Sharpe Screw Machines with value-added services including assembly, centered grinding and honing, weldments, progressive kan-ban systems, consignment inventory and stocking programs to help customers improve their inventory turns.

Rable is expanding its manufacturing space by 50%. It purchased a nearby building, and in 2009 it will construct a connector building between the new and old spaces. **OAW**

Heidenreich *continued from pg. 10*

funding through the Ohio Advanced Energy Program. Lt. Governor Lee Fisher, who was the keynote speaker last year, last month announced a million dollar grant to EBO Group for the development of our third new venture in the last six years, Triton Hybrid Drives, which is developing hybrid drive systems for commercial vehicles that will ultimately be plug-in hybrids for many kinds of urban vehicles.

We emphasize employee ownership in going after grant money, and I really think the state has become very aware of the economic importance of supporting ESOP organizations. In Ohio, we seem to be somewhat of a pioneer in the concept of launching new ventures within an ESOP.

In five years we have gone from a rustbelt company serving declining markets with declining sales and declining stock value, to a fast growing company developing products that the world needs for the growing energy and medical markets. The employee owners made it happen. They became venture capitalists, reinvented our company, positioned the company to be awarded our first government grant, and take on incredible challenges with amazing teamwork to make EBO Group an exciting, rewarding and fun place to work.

That is our story. I hope this might encourage you to at least explore the idea of starting new things in your company. Certainly, the idea of reinventing yourself to compete in the global economy is an important thing. You are all involved in a very exciting employee ownership community that has great support around Ohio. I wish you all great success. **OAW**

Position Available - Program Coordinator

The Ohio Employee Ownership Center of Kent State University seeks a program coordinator for expansion of our Business Ownership Succession Planning Program in Southwest Ohio. The position involves public outreach, organizing seminars for business owners, and working closely with retiring owners who choose to sell their companies to their employees. Qualifications: Excellent organizational, speaking and writing skills. Experience working with family business owners is vital. Knowledge of employee ownership is a plus. Pay based on qualifications. For more information, visit http://dept.kent.edu/oeoc/JobOpportunities/JobOpportunities.htm. To apply: send letter of application, a current resume, salary history, and salary requirements to Karen Thomas, Associate Director, Ohio Employee Ownership Center, 113 McGilvrey Hall, Kent State University, Kent, OH 44242-0001. Review of applications will begin 8/1/08 and continue until the job is filled. Equal opportunity/affirmative action employer.

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Our thanks to the people who, through their generosity, have helped made our work possible.

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OEOC Goes to Hollywood...

...and to Canton, Steubenville, Akron, and Columbus too

Succession Planning Program Expands with New Initiatives

Readers of the last issue of *Owners At Work* will remember the announcement that the State of Ohio's Department of Job and Family Services had contracted with the OEOC to expand its small business succession planning program throughout the state. The first year's work is coming to an end, and there were a number of exciting projects that occurred:

- The OEOC teamed up with the Jackson-Belden Chamber of Commerce and the Jefferson County Chamber of Commerce for the Canton and Steubenville Succession Planning Programs. Each program provided small business owners with a grounding in the various issues related to succession.
- In tandem with the 22nd Annual Ohio Employee Ownership Conference (read more elsewhere in this issue), the OEOC piloted "Business Succession Planning for Economic Development Professionals." The program brought together E-D pros from around Ohio to Akron for an intensive training session on the basics of succession planning.
- The OEOC's popular text, *An Owner's Guide to Business Succession Planning* has undergone an extensive revision and update.
- The first four episodes in an ongoing series of webinars were presented in May and June. The webinars brought succession planning professionals and participants together via technology. The webinars were recorded and are available for viewing at www.kent.edu/oeoc/spp.
- And last but not least, the OEOC has gotten into the movie-making business with its production of *Business Succession Planning: The Movie*. While possibly not as hot as the latest installment of the Indiana Jones saga, the movie provides an interesting and quick overview of succession planning.

"We will be continuing to expand both the geographic and technological, reach of the succession planning program in the coming years," says program co-coordinator Chris Cooper. "We are looking forward to traveling around the state of Ohio and providing Ohio business owners with the assistance they need to transition successfully out of their businesses, and retain businesses and jobs too." **OAW**

ACTION! The Ohio Employee Ownership Center jumps into movie production. Dave Baird (center) of Select Machine Inc. in Brimfield gets filmed by Thomas Williams Jr. (left) of Finesse Entertainment & Sound and grilled by Chris Cooper (right) of the OEOC (photograph by David Sullivan of Terrapin Media Development).

David M. Binns, *Employee Financial Participation: An International Survey* (Fairfax, VA: John M. Olin Institute for Employment Practice and Policy, George Mason University, 2008), 532 pp. ISBN 978-0-9802483-0-2. $45.00.

Ever wondered whether the United States is alone in promoting employee stock ownership? If so, this is the book for you. This encyclopedic account of legislation on employee financial participation through employee ownership, profit sharing, stock options, and other mechanisms around the world provides the answer: We are not alone.

Employee Financial Participation provides an exhaustive survey of the laws on employee financial participation in private sector businesses in thirty-four nations and several provinces, especially in the industrial countries. It is comprehensive in its coverage of employee stock participation in the United States, Canada, the European Union and its member states (14 EU members including the United Kingdom, Germany, France, Italy, Poland, and Spain are covered), Japan, South Korea, and the People's Republic of China.

The volume is particularly strong in its coverage of ESOPs and of broad-based stock options programs, as befits the career of its author, David Binns, who was once the chief staff officer of the ESOP Association and wrote this as the Associate Director of the Beyster Institute, which has focused on employee ownership in high-tech industries where stock options have been the tool of preference for employee financial participation.

The book is also strong throughout on tax and reporting issues. This will make it particularly useful for multinational companies trying to determine whether they can implement stock options internationally.

Binns attributes the growth in employee ownership internationally to four primary factors: (1) economic globalization has encouraged employee participation for competitive reasons; (2) multinational corporations increasingly promote stock options outside the executive suites, especially in knowledge-based industries; (3) pension reform has meant that defined contribution plans have grown at the expense of defined benefit plans; and (4) privatization has required worker support in former Communist countries and other nations including several Latin American countries, Egypt, Ireland, Jamaica, and Mrs. Thatcher's England. Binns' thesis is that "Participation in management and ownership has helped to accelerate productivity improvement and has contributed to the steady expansion of the GDP of a growing number of countries" (p. 1).

In the US, Canada, and the United Kingdom – the Anglophone world – employee financial participation occurs on a company-by-company basis and employee participation in decision making has little or no root in legislation, although it may occur through individual companies' policies or through employee ownership. On the European continent, by contrast, practically all countries have some form of legislated employee input either through works councils or co-determination at the plant or board level or both, and several—most notably France—have mandatory systems for employee financial participation.

This is a clear pattern in the data presented and reflects the striking differences between post-World War II developments in the English-speaking countries, where the wartime systems of labor-management cooperation were dismantled after the war, and the Continental systems where they were institutionalized in Central and Northern Europe in the immediate post-war period, in France and Italy after 1968, and in Portugal and Spain after the collapse of Fascism. About half the book is devoted to the European Union countries.

The volume suffers a bit from the age of some of the information. Japan, we are told, has widest use of ESOPs which, in the Japanese case, are employee stock purchase plans with company match. The Japanese system was set up in 1967 and, by 1988, 90% of all listed firms had ESOPs, and 50% of the labor force participated. While employees owned only 0.85% of the value of all listed firms in 1988, this had become a significant source of asset accumulation for workers: as of 1988, the system accounted for 30% of average worker's net assets (pp. 421-22).

The same is true of China, where two predominant sorts of employee ownership have developed and grown. Shareholding co-operative companies within the Township-Village Enterprise (TVE) system had grown to 3 million enterprises by 1995 (p. 431), and 9,000 restructured (former state-owned) companies were using ESOPs (owning 21% average share) in 1994.

I wonder how things look today.

Despite the widespread nature of financial participation in the industrial democracies, one of the ironies in reading this exhaustive report is that best practices do not seem to have spread. The French policy of mandatory profit sharing seems to have no downside in Binns' report but also to have had little impact outside France's boundaries. The Spanish *Sociedades Anominas Laborales* (SALs), perhaps the most innovative effort to adapt to industrial countries' job losses from economic globalization, appear to have had no emulators, and the US policy of encouraging employee ownership in ownership succession in closely held businesses appears to have inspired only British Columbia (pp. 108-09).

While Binns' introduction suggests that greater employee participation is a means to increase competitiveness in economic globalization, aside from his relatively brief coverage of German co-determination (pp. 223-26), he ignores employee participation when disconnected from ownership in other countries. While that fits the English-speaking world, it certainly doesn't fit continental Europe where employee participation is mandated in all larger companies.

Although exhaustive in its coverage of employee stock ownership and stock options, Binns' focus on stock-based companies leads him to ignore worker co-operatives outside Spain, though he cites the International Cooperative Alliance estimate that "co-operatives provide over 100 million jobs around the world, 20 percent more than multinational corporations" (p. 8).

This is an optimistic book for proponents of employee ownership. As Binns says, "the seemingly inexorable growth of employee financial participation in the results of enterprise performance is a trend that doesn't appear to be abating" (p. 7).

-- John Logue

John Logue teaches political science at Kent State University. OAW

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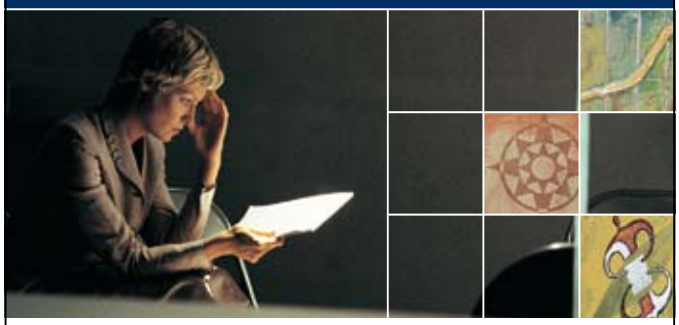

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Firestone CC, Akron
Hosted by ComDoc Inc.

ESOP Board of Directors Forum
Wednesday, September 10
Akron area

ABCs of ESOPs
Wednesday, September 17 - Toledo
Wednesday, October 22 - Kent
Wednesday, November 5 - Cincinnati

Leadership for Building an Ownership Culture
Thursday, September 18
Toledo

ESOP Administration Forum
Thursday, September 25
Cincinnati

ESOP Communication Workshop
Thursday, October 23
Kent

Leadership for Building an Ownership Culture
Thursday, November 6
Cincinnati

ESOP Fiduciary Workshop
Thursday, December 4
Cleveland area

To register, call the OEOC at 330-672-3028
or email kthomas@kent.edu

Other Events of Interest

August 7-9, 2008
The ESOP Association - Employee Owner Retreat
Chicago, IL
call 330-672-3028 for details

October 8, 2008
The ESOP Association OH/KY - Fall Conference
Columbus, OH
email easinc@eriecoast.com for details

October 27-29, 2008
National Center for Employee Ownership - Get the Most Out of Your ESOP Conference
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