John Logue

He Achieved Much.

The Work Goes On.
Publisher’s Note

John Logue, founder and director of the OEOC since 1987, passed away on December 9, 2009 after six weeks’ illness. For the current issue of Owners at Work, John would have advised, “I am gone, but pay no attention to me as an individual. Go ahead with the work of the Center. Help people keep jobs in their communities and grow their wealth. The American system needs more capitalists.” Nonetheless, we must pause and pay tribute to the extraordinary and unassuming professor who developed the OEOC. We think he would like our theme: “The Work Goes On.”

A brief obituary with tributes from colleagues is the biggest story in this edition. Dr. Patrick Coy, John’s colleague from the political science department, writes about him as a public intellectual, and Ted Howard of the Democracy Collaborative addresses John’s engagement with the new Evergreen Cooperatives in Cleveland.

Other articles in this edition cover what John would consider the real tributes to him, who helped and worked for them and enlisted others in the effort. Articles about the launch of the Evergreen Cooperative Laundry and Ohio Cooperative Solar in Cleveland celebrate the success of getting the first worker cooperatives in Greater University Circle off the ground. A story from EBO Group proposes a strategy especially suited for growing employee-owned companies. Network News reflects the activities of Ohio’s Employee-Owned Network, a participant-directed learning community of companies that is notable for its business success. Senator Bernie Sanders and his cosponsors have introduced bills to form an employee ownership bank and to finance state centers to help establish and support employee-owned companies, initiatives John particularly advocated. The bills give Congress another chance to anchor jobs and enterprise with practical, effective, low cost help.

John’s final contribution to Owners at Work is a review of Matt Hancock’s book on Italian cooperatives. A visit to Emilia Romagna in 2006 showed John that a network like the Mondragon Cooperatives in Spain could be adapted to varying national and legal frameworks, and now there is Evergreen in Cleveland. Finally, there is more help for business owners wanting to sell to an ESOP or a coop. With the support of the Ohio Department of Development and the U.S. Department of Agriculture, the Center’s succession planning education will expand and a new cooperative development center will help more of the working people of Ohio to build their own wealth in their communities. So, in a certain light, the entire issue is a tribute. The institution that he created goes on, helping working people of Ohio toward a better future through employee ownership.

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Evergreen Doors Open

The Evergreen Cooperative Laundry (ECL) and Ohio Cooperative Solar (OCS) celebrated their openings on October 21, 2009 with a crowd of 325 family, friends, supporters and well wishers. Speakers included Cleveland Mayor Frank Jackson, Kent State University president Lester Lefton, Case Western Reserve University Vice President John Wheeler, and John Ryan, representing Senator Sherrod Brown. Chief External Affairs Officer for the Cleveland Clinic Oliver “Pudge” Henkel and Steven Standley, Senior Vice President for Systems Services at University Hospitals, represented the anchor institutions for health care; Ann Conn, CFO of The McGregor Foundation and Cynthia Dunn, President and CEO of Judson, both among the laundry’s earliest customers, offered congratulations.

Also represented were financial and economic development institutions: David Janus, Senior Vice President at FirstMerit Bank; Gerry Meyer of the Greater Cleveland Partnership, and Tracey Nichols, Cleveland’s Director of Economic Development. Also present were eight employees and future owners of ECL and four employees of OCS.

The laundry will target the growing market for laundering health care linens, while OCS plans to install and maintain solar power units for the anchor institutions. Both cooperatives are part of the Cleveland Foundation’s economic inclusion strategy for the Greater University Circle neighborhood. For more on the Evergreen Cooperatives, see Owners at Work Summer 2009, pp. 14-17.

Sanders Introduces Bills for ESOP Bank, State Centers

U.S. Senator Bernie Sanders (I-VT) and original co-sponsors Patrick Leahy (D-VT), Sherrod Brown (D-OH) and Robert Menendez (D-NJ) introduced two new legislative proposals into the U.S. Senate on December 18, 2009, to help employees own and manage their own businesses through employee stock ownership plans (ESOPs) or eligible worker owned cooperatives. Although most employee-owned businesses are not formed from distressed firms, employee ownership can be what keeps a hard-pressed business from shutting down or shipping its jobs overseas.

The Worker Ownership, Readiness and Knowledge (WORK) Act (S. 2909) would create an Office of Employee Ownership and Participation in the Department of Labor. This office would help create state programs to promote employee ownership and employee participation in company decision making by providing education and outreach, training, grants, and technical support for local efforts dedicated to employee ownership and participation.

The U.S. Employee Ownership Bank Act (S. 2914) would provide for the establishment of a bank that would make loans and loan guarantees to employees to purchase a business through an ESOP or a worker-owned cooperative. The federal government currently provides a wide variety of federal loans, loan guarantees and other technical assistance to American companies as a way to increase U.S. jobs through exports. Providing federal loans and loan guarantees for the expansion of employee ownership would increase and retain jobs in the U.S. and strengthen the U.S. economy.

Both bills were referred to the Senate Health, Education, Labor, & Pensions Committee.

Sanders’ announcement states that numerous studies have shown that workers in employee owned companies typically earn wages equal to or better than other firms in their industry, receive better benefits, and almost never have their jobs sent off-shore. A study by the Employee Ownership Foundation recently found that employee owned companies pay 5% to 12% higher wages than comparable conventional companies. They also contribute 10% of pay to retirement accounts, compared to traditionally owned companies’ 3%. And, according to a study by the Employee Ownership Foundation, 92.4%...

Left, (from l to r) Derek Davis, Ed Code, Dick Szczepinski, Mienyon Smith, Medrick Addison, Traci Marsh, Jerry Young from the laundry celebrate the opening. Below, Keith Parkham talks Evergreen to local media.
of companies that have created an employee ownership structure believe that doing so was “a good decision that has helped the company.”

By expanding employee ownership and participation, these bills would create stronger American companies, prevent job loss, and improve working conditions for employees.

SAIC Employees Lose Majority Control

On June 19, 2009, 56% of the shareholders of Science Applications International Corporation voted to take the company to be a fully publicly traded and controlled company by eliminating the extraordinary voting rights of employee-owned preferred stock. SAIC once was the second biggest employee-owned company in the U.S. Two years after the 2004 retirement of founder Robert Beyster, the company first offered stock to the public.

Early in the company’s history, Beyster began to reward employee performance with shares as a means of retaining the numerous highly skilled employees who created the success of the firm. Beyster practiced open communication along with ownership, and by that means created a large, highly entrepreneurial, decentralized firm of well-qualified and well-paid professionals. (See OwW Winter 2007/2008 pp. 14-15.)

SAIC’s internal trading system regularly offered employees the right to buy the stock of others who wanted to sell, and the company “made a market” by matching buyers and sellers.

After the shareholder vote, Beyster wrote on June 24, “I have heard the theory that minority voting control and ownership by employees will unleash SAIC’s stock price. I hope the stock price does well but I want to make clear that there is nothing magical about employees owning little of a company. I believe that broad-based employee ownership at all levels was a critical factor in making SAIC so successful in the first place.” (www.beyster.com/blog)

Court Rulings Make Fiduciary Insurance More Important

Two recent court cases have tackled the issue of whether or not an ESOP company can provide indemnification for people serving as fiduciaries for the company’s ESOP, and both courts arrived at the same answer: No.

The first case, Johnson vs. Couturier (2009, CA9) 572 F.3d 1067, involved a 100% ESOP-owned company where the ESOP participants sued the ESOP’s board of directors and the trustee, who was also the company CEO. The second case, Fernandez et. al. vs. K-M Industries Holding Company (2009, N.D. Cal). No. C06-7339, involved a 42% ESOP-owned company.

In both decisions, the courts reasoned that it made no sense for the ESOP participants to pay the fiduciaries’ expenses. Even when indemnification was paid from corporate assets, the ESOP would “bear the financial burden of indemnification,” either directly or indirectly through its ownership interest in the company. The percent ownership of the company stock by the ESOP was not a factor in either decision.

How can a company protect responsible fiduciary officers if it cannot promise them indemnification from lawsuits? One solution is fiduciary insurance.

ESOP companies purchasing such insurance should be sure to purchase the riders that specifically extend the coverage to ERISA plans and to ESOP companies, since neither of these is routinely included.

This article was reviewed by Scott J. Stitt, ESOP litigation attorney in the Columbus, OH, office of James E. Arnold & Associates, LPA. However, nothing in this article constitutes legal advice or opinion. For answers to specific questions, consult your ESOP professional.

Common Wealth Fund Steps up Lending, Receives CDFI Status

As commercial bank lending contracted in 2009, Common Wealth Revolving Loan Fund (CWLRF) markedly increased its lending. Applications from employee owned companies increased, and the fund grew its principal.

The fund was also certified by the U.S. Treasury as a Community Development Financial Institution. Recognition will qualify the fund for federal assistance to strengthen and develop it.

The credit problem is far from resolved. Carl Grassi, president of McDonald Hopkins law firm in Cleveland, indicated that some employee owned companies with 2004-06 bank financing for purchase of company shares may face challenges in renewing their loans in the next couple of years.

CWLRF extended loans to three newly formed employee owned companies -- one ESOP and two employee-owned cooperatives -- and modified one existing housing loan, amounting to $550,000 of new funding. Three more applications are pending.

To meet these needs, new investors brought additional capital into the fund. Six hundred thousand dollars for relending came from Adrian Dominicans, Calvert Foundation, Mercy Investment Partners and one organization that prefers to remain anonymous. The Cleveland Foundation provided a $675,000 investment note and a $75,000 recoverable equity investment. Together, these funding sources created a sound base for CWRLF to expand lending to employee owned companies.

Fund managers from the OEOC are pursuing additional sources of funding and grant opportunities to strengthen the administration of the program and further expand lending capacity. Loans are currently available to serve employee owned companies. To learn more about CWRLF, direct inquiries to Roy Messing, rmessin2@kent.edu or Bill McIntyre, bmcinty2@kent.edu, or call 330.672.3028.

Mondragon and Steelworkers Reach Historic Agreement

On October 27, 2009, the United Steelworkers (USW) and MONDRAGON Internacional, S.A. announced a framework agreement for collaboration in establishing MONDRAGON cooperatives in the manufacturing sector within the United States and Canada. The USW and MONDRAGON will work to establish manufacturing cooperatives that adapt collective bargaining principles to the MONDRAGON worker ownership model of “one worker, one vote.”

“We see today’s agreement as a historic first step towards making union co-ops a viable business model that can create good jobs, empower workers, and support communities in the United States and Canada,” said USW International
President Leo Gerard. “Too often we have seen Wall Street hollow out companies by draining their cash and assets and hollowing out communities by shedding jobs and shuttering plants. We need a new business model that invests in workers and invests in communities.”

Josu Ugarte, President of MONDRAGON Internacional added, “What we are announcing today represents a historic first – combining the world’s largest industrial worker cooperative with one of the world’s most progressive and forward-thinking manufacturing unions to work together so that our combined know-how and complementary visions can transform manufacturing practices in North America.”

“We see Mondragon’s cooperative model with ‘one worker, one vote’ ownership as a means to re-empower workers and make business accountable to Main Street instead of Wall Street,” said Gerard.

Both the USW and MONDRAGON emphasize the shared values that will drive this collaboration. Mr. Ugarte commented, “We feel inspired to take this step based on our common set of values with the Steelworkers, who have proved time and again that the future belongs to those who connect vision and values to people and put all three first.” Added Gerard, “We are excited about working with Mondragon because of our shared values that work should empower workers and sustain families and communities.”

In the coming months, the USW and MONDRAGON will seek to implement this union co-op hybrid approach in similar manufacturing segments where both the USW and MONDRAGON already participate.

MONDRAGON began in 1956 in the Basque town of Mondragon in Spain, started by a rural village priest with a transformative vision who believed in the values of worker collaboration and working hard to realize the common good. Today, Mondragon has approximately 100,000 cooperative members in over 260 cooperative enterprises in more than forty countries.

The USW is North America’s largest industrial union representing 1.2 million active and retired members in a diverse range of industries.

Facing a Layoff? Rules for Partial Termination of ESOPs

The IRS has defined a partial termination of an ESOP as occurring when there is a reduction of 20% or more of the number of participants (both vested and non-vested) during an ESOP plan year as a result of an involuntary layoff initiated by the company.

If an ESOP company has a partial plan termination for a plan year, then all people separated from service during that year, for whatever reason, become 100% vested. There is no impact on the vesting of people who continue as employees.

A partial plan termination from laying off mostly unvested employees could have a large negative impact on the company and the ESOP. Conversely, for companies with a very senior workforce with virtually everyone already 100% vested, the impact could be minimal. Each company should calculate the impact of a partial plan termination for its specific situation.

What if there are multiple layoffs during a plan year?

Multiple layoffs are considered as a single layoff if they are connected. In general, all layoffs in a single plan year would be seen as one layoff. Only if management had a sincere and documented belief that a layoff at one point in the year would be sufficient, and then subsequently concluded that additional layoffs were needed, would it be likely for the layoffs to be considered separate.

What about people who quit on their own during the year or were fired for cause? One IRS representative has said that everyone separated from employment during a plan year declared to be a partial plan termination should be taken to 100% vested. But ESOP attorneys are not united in their view on the question.

In the case of people who quit to take another job because they can see that layoffs are likely, there’s an argument for treating them the same as employees who are laid off during a partial plan termination. But quitting might have nothing to do with the company’s business situation and might be strictly an employee’s choice -- for example, an employee who quit because his/her spouse received a promotion and they moved to another city. In that case, benefiting from 100% vesting might be inappropriate.

People terminated for cause could argue that they were fired so that the company could avoid taking them to 100% vesting in a partial plan termination, and then the company might be susceptible.

What to do to avoid legal uncertainties? If your company is near a layoff of 20%, it may not be worth fighting at all if the amount of exposure is small. Be conservative and take all the laid off to 100% vested.

But it is worth calculating a worst case scenario for your likely layoffs. If, even in this worst case, you don’t violate the 20% limit, you do not have a partial plan termination.

If you will be laying off more than 20%, do a case-by-case count. Start eliminating from the terminated employees those for whom there is documentation that they did not leave for any reason associated with the layoff. If, after making these adjustments, you are now below 20%, then you should feel comfortable defending the position that you do not have a partial plan termination. If you are still over 20%, then implement a partial plan termination.

This article was reviewed by Dale Vlasek, ESOP attorney in the Cleveland, OH, office of McDonald Hopkins. However, nothing in this article should be construed to be legal advice or opinion. For answers to specific questions, consult your ESOP professional.

Cleveland Goes To Mondragon...Again!

Editor’s note: The Mondragon Cooperative Corporation (MCC), a large and successful network of small cooperative enterprises centered in the Spanish Basque country, is the model for an economic inclusion strategy being implemented as the Evergreen Cooperatives in Cleveland’s Greater University Circle (Owners at Work Winter 2008-2009, pp. 10-12 and Summer 2009, pp. 14-17). Two cooperatives were launched in October 2009, and plans exist for three more in the year ahead.

In some ways the management techniques of MCC would be familiar to any effective manager anywhere. What is differ-
Cleveland, we CAN take the leader-
ship, spirit, discipline and consistency
and apply those lessons to the Cleve-
land experience and grow our own
model.”

“I think we sort of have to create a
culture if we are going to have any kind
of success. And we are only going to
create that culture if we really under-
stand how we can meet the needs of our
particular workers. We still have a great
deal to learn, and mostly what we have
to learn is exactly how do we apply this
model to meet the cultural needs of our
workers.”

“What we need to do to achieve our
goals is to help the neighborhood. We
need a mechanism and we don’t know
exactly what that mechanism is...and
that is a big piece of the work that we
all need to do together...What is that
mechanism?”

“What we are trying to create in
Cleveland is to help a group that is dis-
enfranchised be able to create wealth in
their community...and being in Mon-
dragon reinforces that it is possible.”

“It is a model that builds capital and
builds equity and does it in a just and
equitable manner. The system is able to
adjust to changing economic times and
changing technology and the model
has much to teach us if we can listen
and learn from it.”

The comments below were recorded
at the closing session of the second visit
to Mondragon by a group of civic, busi-
ess, academic and foundation leaders
who visited the MCC in October 2009.

“My recognition of the work at
Mondragon is much like the iceberg:
what you see is really a process that has
been created by what you don’t see --
that which is really below the surface.
There is a spirit here that is reinforced
by consistency of leadership and while
we can’t simply take what Mondragon
has accomplished and replicate it in
Cleveland, we CAN take the leader-
ship, spirit, discipline and consistency
and apply those lessons to the Cleve-
land experience and grow our own
model.”

The goal of employment is something
leaders of MCC repeatedly mention when ex-
plaining their organization to outsiders. To
achieve employment, the MCC cooperatives
must be profitable. Nonetheless, the primacy
of jobs for employees infuses many practices
and choices made at MCC with a humane
and noneconomic dimension that really must
be experienced to be appreciated.

It’s a sign of their support that some
Cleveland leaders took time from full sched-
ules and substantial responsibilities to par-
ticipate in a week of education, living in
modest accommodations in the Mondragon
Valley for tours of cooperatives, discussions
and instruction. Each participant takes
away a slightly different impression, de-
pending on his/her own background, posi-
tion and organizational experience. A com-
posite of their remarks may best translate
what Cleveland can learn from the MCC
organization.

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and learn from it.”

The participants’ remarks show that
supporters of the Evergreen Initiative
continue to learn as the effort expands.
Their ongoing training is a commitment
to Evergreen employees to help them
build a culture of learning and success
in their cooperatives. To bring lessons
from Mondragon home for sharing
among the Evergreen Team, future vis-
its and return visits are planned.

Sign of the Times – ESOP Game
Strategy Changes

The OEC’s most popular training
program is The ESOP Game, in
which a group of ESOP company em-
ployees manage a fictional ESOP com-
pany (Toidy Roll) through its first three
years as an ESOP. In past years, most
groups enthusiastically and routinely
chose to invest in new technology, even
dough in most cases they had to bor-
row money to purchase the new equip-
ment.

What a difference a Great Recession
makes.

Groups playing the ESOP Game in
2009 rarely purchased the new equip-
ment, and those that did waited until
they had the cash on hand. No one took
out loans.

The lesson for ESOP company man-
agement: You are not alone in realizing
that your ESOP company needs to get
more conservative to survive this reces-
sion. Your employee-owners realize it,
too. Work together and survive with
less management-employee tension.
Then thrive when the recession ends.

Australia Gets Employee Own-
ership Center

In February 2010, the Australian Em-
ployee Ownership Association real-
ized a long-term goal of establishing an
employee ownership center, securing
over $1.8 million in federal government
funding for a pilot project to convert a
dozen salvageable businesses with 600
jobs at stake into viable firms.

The center will assist employees to
buy the companies they work for, as
an alternative to company closures and
selloffs.

The Australian Employee Buyout
Centre will work with local providers
and business groups to offer mentor-
ing and support services to businesses
and employees throughout the buyout
process. oaw

Scott Boyd (JB), Tom Kierman (Lockrey),
Ryan Broshious (JB) & Andrew Calligan
(Lockrey) are into the ESOP Game at an
Ohio’s Employee-Owned Network Program
in Toledo, OH.
Employee-owned companies looking for new business lines can be effective incubators for new enterprises, for the mutual benefit of both the established business and the startup. EBO Group has modelled the process three times at least, to the great benefit of the company and its employee owners.

To spread the word on the magic of incubating startups, EBO Group welcomed nearly 50 leaders from 22 ESOP companies to the semiannual meeting of Ohio’s Employee-Owned Network, which served as co-host of the event. The evening started with group tours of the 39,400 sq.ft. facility in Sharon Center. Each tour was led by an EBO Group employee owner and featured insights into the products incubated at PT Tech, TransMotion Medical and eZEhybrid Drives, all EBO Group companies. Keith Nichols, President, and Dave Heidenreich, Chairman, welcomed the guests, primarily CEOs, CFOs and CTOs, some of whom traveled to Medina County from Columbus, Youngstown and even Dexter, Michigan.

Following dinner, three Northeast Ohio organizations that serve as business incubators were presented by Dr. George Newkome of the University of Akron Research Foundation (UARF), Ray Leach of JumpStart, and Cliff Reynolds and Jim Shanahan of Lorain County Community College’s GLIDE. Using EBO Group as an example, the purpose of the program was to generate interest in the potential of employee-owned companies to be business incubators. ESOPs can provide a stable, nurturing environment for young companies and bolster their own business prospects at the same time. EBO Group has created three new companies since 2002.

A lively question and answer session followed the program, with the speakers offering numerous suggestions, including information on assistance beyond their own organizations. These organizations are actively incubating new companies and, in some cases, the startups are good candidates for acquisition by ESOP companies that are looking to expand business in new directions and already have most of the workforce and management in place to develop already promising new ideas into solid product lines.

It was pointed out that all too often young companies seeking investments are limited to venture capital, which often comes from outside the region. ESOPs can provide an ownership alternative that will anchor the company and its workforce locally, reducing the risk of outside interests moving the company out of state or overseas.

John Logue, director of the OEOC, capped off the evening with remarks encouraging those in attendance to give strong consideration to the message of the meeting: ESOPs can be ideal incubators. For more information on EBO Group’s experience as a business incubator, see OaW Summer 2008, pp. 9-11. oaw
When employees of The Davey Tree Expert Co. learned in 1977 of the Davey family’s intention to sell the company, a movement began. A handful of workers organized an employee-ownership committee and began exploring avenues to buy the company. In 1979, ownership was transferred to the employees. A total of 113 workers participated in the purchase, and more than 400 participated in the employee stock ownership plan (ESOP). In the 30 years since, employee owners have seen a significant return on investment, and Davey has become one of the oldest and largest employee-owned companies in the nation.

If you invested $100 in 1979 in the S&P 500, it is worth roughly $2,300 today. However, if you invested $100 in Davey, you would have $12,000 today.

“Davey’s fundamental belief, first and foremost, is that our employees are our greatest asset,” said Karl Warnke, Davey chairman, president and CEO, during the recent 23rd annual Ohio Employee Ownership Conference. “To turn a company over to the employees and expect them to run and sustain an organization properly, you have to have absolute faith and confidence in your people. It can’t be talk; it can’t be lip service. You have to put it into words and action.”

Davey is the largest employee-owned company in Ohio and one of the top 20 in the United States. It was founded in 1880 by the “father of tree surgery” John Davey in Kent, Ohio, as the first tree company in North America. It now has more than 7,000 employees.

Davey has been divided into four major business segments:

— Residential Services, which offers tree and shrub work for residential properties;
— Utility Services, which does tree trimming and line clearance for investor-owned utilities, cooperatives, rural electric associations, municipalities, and others needing vegetation management;
— Commercial Landscape Services, which provides large tree moving and grounds care on commercial properties, including golf courses;
— Davey Resource Group, which offers urban and utility forestry and natural resource consulting services.

Technical support is provided through the Davey Institute and the company’s research and development team.

Also since 1979, the company has more than doubled its number of employees and now includes operations in 45 states and five Canadian provinces.

“It took the family 100 years to get to $60 million, but it took the employees 30 years to get to $600 million. That speaks volumes to what employee ownership has meant to the growth of the company,” Warnke said.

Every employee has an opportunity for stock ownership, which rewards everyone’s efforts. No one employee owns more than 4 percent of the stock, and ownership is based on the amount invested. Through its ESOP, the Davey Company introduced the concept of stock ownership to employees with little knowledge of its workings.

An ESOP must have strong financial performance and a solid growth philosophy, Warnke said, “because it is all about employees, all about people. People need opportunities. People need career paths.

“The direct-owned shares and broad-based ownership gives each employee an opportunity to participate.”

Currently, about 59 percent of Davey’s stock is owned directly by individuals. Davey’s Employee Stock Purchase Plan is open to all employees. Individuals invest at a discount price and can sell their shares back the following year. Davey offers subscription plans every 10 years to individuals in supervisory roles, and stock appreciation rights are earned by upper management. Davey also has a 401(k)SOP, which owns about 31 percent of Davey stock.

Davey stock value grew in 2008 and has paid $200 million in cash and dividends to stockholders in the past 30 years. At the employee acquisition, the market value of all shares was...
nearly $7.2 million. Today it is $254 million. Stockholders’ equity then was $9 million; now it is $95 million. The per-share price has gone from 74 cents to $16.40.

Throughout Davey’s North American operations, each employee owner has a true stake in the company and is committed to delivering his or her best, regardless of location or title. The advantages employee ownership yields are evident, both in Davey’s success and the pride of the employees.

“Every day, we have different challenges, but the camaraderie and loyalty of all employees keeps me excited about my job,” said an employee owner, who has worked for Davey for 33 years.

“Davey changes lives,” said a 14-year employee owner. “The company offers a lot more than a good wage. You can have a great career.”

Employee ownership has become a Davey tradition.

“It also has been an essential part of the company’s success in the past,” Warnke said. “But perhaps most importantly, employee ownership will serve as a catalyst for Davey’s future endeavors. The employee commitment will help drive the company forward through the next 30 years.”

### Responding to Unsolicited Offers to Buy

**Bill McIntyre**

This article was reviewed by Ben Wells, ESOP attorney with the law firm of Dinsmore & Shohl and Rob Edwards, ESOP attorney with Steiker, Fischer, Edwards & Greenapple, P.C. Nothing in this article should be construed to be legal advice or opinion. For answers to your specific questions, consult your ESOP professional.

One of the perpetual issues for ESOP companies is how to handle unsolicited offers to purchase the company. Every ESOP CEO is familiar with the letter that begins “I represent a serious buyer who wants to purchase companies like yours ...” ESOP CEOs and their boards of directors are often in a quandary as to how to react to those unsolicited offers. Can the letter simply be thrown in the wastebasket? Does the ESOP trustee need to be involved? Does the board need to formally reject it? Do they need to conduct a pass-through vote in which the ESOP participants direct the trustee how to vote their shares?

Some ESOP company boards of directors have handled the issue by passing a resolution saying essentially that the company liked being an ESOP company, that it was in its best interests to remain an ESOP company, and therefore was not for sale. These “not for sale” resolutions were intended to avoid considering casual offers to purchase the company.

Unfortunately, there is a problem with “not for sale” resolutions. “At least with respect to the ESOP, this resolution is worthless. In fact, it is likely worse than worthless. If the ESOP fiduciaries blindly follow this resolution, it may be a violation of fiduciary responsibility since ESOP fiduciaries must discharge their duties for the exclusive purpose of providing benefits to ESOP participants and their beneficiaries. Ignoring an offer that may be many times greater than the company’s appraised value could possibly be a violation of that fiduciary responsibility.” (See “20 Misconceptions about ESOP Fiduciary Responsibility and Liability,” OAW Summer 2005.)

ESOP practitioners have continued to wrestle with the issue, though, and there appears to be a breakthrough in wording that specifies the criteria under which an ESOP company will consider an offer to purchase the company. It was developed by Rob Edwards, an ESOP attorney in Providence, RI, office of Steiker, Fischer, Edwards & Greenapple, P.C. This board resolution is NOT a “not for sale” resolution, but a “Policy on Unsolicited Offers.” It allows management to focus on successfully managing the company without being diverted by non-serious offers.

The following template for the resolution contains time sensitive wording, so it should be reviewed and approved periodically (suggestion: annually) by the board of directors.

### POLICY ON UNSOLICITED OFFERS

The Board of Directors of [Company] has adopted the following policies and procedures with respect to unsolicited offers to purchase the Company:

Generally, a sale of the Company is not deemed to be in the best interests of the shareholders at this time.

Notwithstanding the general policy set forth in Paragraph 1, serious offers to acquire the Company will be considered as described below.

Unsolicited offers will be subject to a preliminary review process. If the offer is deemed to be serious, it will be referred to the Board for further action.

In determining whether an unsolicited offer is serious, the prospective acquirer will generally be asked to supply the following information:

1. Identify the prospective acquirer and all related parties;
2. State the prospective acquirer’s preliminary acquisition terms including price, key representations, warranties and conditions, timing of the transaction, and proposed payment terms; Provide detailed financial information establishing the prospective acquirer’s capability to complete the transaction; Describe the effect of the proposed acquisition on current Company operations, management, employees, customers and communities served by the Company; State the industry experience of the prospective acquirer; Provide examples of prior successful acquisitions by the prospective acquirer; and
3. State the key elements of the prospective acquirer’s business plan following acquisition of the Company.

Serious offers will be referred to the [Board/Board Committee] for negotiation of terms. Final disposition of the Company is subject to Board and shareholder approvals required by federal and state corporate law, including a pass-through procedure whereby participants in the company’s employee stock ownership plan direct the trustee of the ESOP plan as to how to vote the shares held by the plan.

A pass-through vote of participants’ shares would be required only if required by law, or if the company had a standard practice of passing through the participants’ vote on all items voted by the shareholders.

Serious potential buyers who have given thought to acquisition should be willing and able to meet the requirements of the policy. All others’ representations can be sent to the circular file, and the CEO can concentrate on navigating the ESOP company through these turbulent times.
Giving Back to the Community during National ESOP Month

In the spirit of celebrating their ESOP heritage during National Employee Ownership Month, The Mosser Group’s ESOP trustees and the ESOP Advisory Committee organized 35 employee-owners who volunteered their personal time to construct a shelter house along a bike trail in Fremont. The Mosser Group, headquartered in Fremont, is a general contractor for highway, bridge, municipal power plant, millwright and commercial building projects. Mosser’s ESOP was established in 1985.

Falcon Industries Wins Again

Falcon Industries was recognized for the second straight year as a Weatherhead 100 award winner. Falcon was one of only twelve manufacturing companies recognized as one of the 100 top-growth companies in northeast Ohio, based on sales from 2004-2008.

Rable Machine Moves to Larger Facility

The 75 employee-owners of Rable Machine in Mansfield celebrated the achievement of ISO 9001:2008 certification in 2009, and also the purchase of a 50,000 square foot building which they will move into by the end of April 2010. “Though we were ISO-compliant for many years,” explained Scott Carter, Rable CEO and President, “ISO certification positions us to better serve our 100+ customers in aerospace, medical, oil and gas, pumps, air conditioning and after-market motorcycles.”

Rable will move from their current location to the industrial park near the airport north of town. The site of a former bottling company, the building is in excellent condition. They will upgrade the facility to support manufacturing, double the power capacity and install bridge cranes and a receiving area for raw materials. Rable operates three shifts and will install programmable energy-efficient lighting to adjust the lighting for smaller shifts. Their purchase includes 13 acres, offering room for expansion.

“We are a strong employee-owned company, and we have been fortunate,” explained Carter. “About 4-5 years ago we began to diversify our business and develop new customers. We more than doubled our business and invested $5 million in higher technology equipment. We paid off our ESOP and became debt-free.
in October of 2008.” Rable Machine is 100% employee-owned through an ESOP established in 1990.

**Northeast Ohio Employee Ownership Day**

The Davey Tree Expert Company hosted 15 other employee-owned firms at this year’s Northeast Ohio Employee Ownership Day Breakfast Reception during Employee Ownership Month in October. Davey’s Communications Team organized this year’s event as part of Davey’s celebration of its 30th anniversary of employee ownership. Each participating company introduced itself, showcased its products and services, and highlighted the benefits of employee ownership in their company, as well as the current challenges.

“Employee ownership binds us together,” explained David Adante, Davey’s CFO, in welcoming all the guests. “Our long-term employees have financial security which they never would have had without stock ownership.”

Davey Tree created an internal stock market through which employees buy and sell shares directly through various stock purchase programs. “We encourage buy-in by putting certificates into employees’ own hands. We want everyone to have skin in the game,” said Adante. “Communication sustains the ‘we’re all in this together’ spirit. Everyone pitches in during tough times.”

The recession has hit nearly everyone hard, and business is down in many sectors. Survival during tough times was a major theme of the Employee Ownership Day discussions as many of the participating companies have undertaken wage freezes, wage cuts or rolling furloughs. Most of the companies credit their ownership culture with helping them “share the pain” and weather the economic storm, just as it enabled most to experience phenomenal growth after establishing their ESOP. OAW
Two programs are available through the OEOC to help business owners explore alternatives for exiting their business, whether that involves the next generation, an outside investor, or employee ownership.

Unfortunately, about 80% of small business owners have no written plan for succession. This lack of planning may be the greatest threat to the sustainability of small businesses today and often leads to job loss and economic decline.

Small Business Succession Planning

Small privately-held, family-owned businesses are often referred to as our nation’s economic engine. Today more than a third of family business owners are over 60 years of age. More than half expect to pass the company along to a younger generation in the family, but a Small Business Administration study found that only 15% do so.

Whether there is a plan in place or not, an enormous transfer of wealth will occur over the next decade as the ownership of these businesses changes, and if a sudden crisis occurs, these companies most certainly will face serious financial and management issues.

To help business owners explore in advance all of the options available to them, the Ohio Department of Development has funded the OEOC’s Succession Planning Program at Kent State University to extend its training throughout the state. The original program in 1996 was centered in the greater Cleveland area. In its first ten years, it served some 625 participants from 500 companies in the Cleveland and Akron areas. In 2007, as part of Turnaround Ohio, the Ohio Department of Job and Family Services provided a two-year grant to build a business ownership succession planning infrastructure and to expand the program to smaller communities in Northeast Ohio and beyond. The result was the development of additional resources such as training seminars, a succession planning publication, a new website — www.oecokent.org — offering distance learning materials, and an increase in the Common Wealth Revolving Loan Fund assets to $1.5 million.

In the year ahead, expansion of programs for succession planning will continue across Ohio. Look for:

— Newspaper and magazine articles on succession planning issues,
— Seminars and presentations for business owners in the major Ohio cities,
— Webinars conducted by succession planning and employee ownership professionals. These will be available live and interactive or via recording.
— OEOC staffers are available for individual technical assistance to small business owners transitioning ownership.
— The new edition of Owner’s Guide to Business Succession Planning and its companion movie in DVD format will be distributed at our events.
— Targeted training for economic development professionals across the state to emphasize the positive effect of early succession planning
— Distribution of a new edition of Selling to Your Employees through an ESOP or a Co-op.
— For attorneys, financial planners, and other service providers, a series will cover succession planning issues, employee ownership, and the various resources the OEOC can offer professionals with clients needing a business exit strategy.

Resources such as the The Owner’s Guide and DVD can be obtained by calling or emailing a request. Or simply click on “Publications and Research” under the OEOC tab or check out the Exit Planning tab on our website www.oecokent.org.

For more information contact Chris Cooper ccooper1@kent.edu (330-672-0338) or Jay Simecek jsimecek@kent.edu (330-672-0998) or the OEOC main line (330-672-3028).

Northern Ohio Center for Cooperative Ownership

Specific assistance for cooperatives is now available at the OEOC from the Northern Ohio Center for Cooperative Ownership (NOCCO), which is supported by a USDA Rural Development Cooperative Development Program grant. The primary objective is to improve the economic, social and cultural well-being of rural communities through the advancement of cooperative enterprise.

In 2005, the OEOC pioneered the first ever use of the 1042 rollover tax incentive for the sale of a business to a worker-owned cooperative (Owners at Work, Winter 2005-06, pp. 1-3). This benefit had been used previously only

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Owners At Work Winter 2009/2010
by employee-owned companies structured as ESOPs (Employee Stock Ownership Plans). ESOPs are often too expensive for use by companies with fewer than 25 employees, which meant most businesses in rural America. Now, this significant new tool for cooperative development in rural areas is being embraced by communities across the U.S.

The USDA grant will support expanded work to keep small businesses in small communities alive during ownership transition through a worker cooperative. New areas of cooperative development will include producer cooperatives, housing cooperatives, and a new idea — multi-stakeholder cooperatives. NOCCO has already identified three specific opportunities to assist in the development of cooperatives that can contribute to economic development in separate rural communities across the state of Ohio, and one new cooperative business outside of the state.

NOCCO was specifically created to more effectively serve rural areas through a mix of specialized applied research, technical assistance, training and advisory services, as well as loans for the expansion and growth of cooperative enterprises. Cooperatives anchor capital and provide an effective deterrent to job loss through plant relocation. Many small communities across Ohio have seen companies shut down and move away. The new cooperatives will also improve the economic prospects for farm producers, particularly small farmers involved in sustainable agriculture.

Three specific NOCCO initiatives are:

— Development of Employee Owned Cooperatives: Provide technical assistance, advisory services and complete feasibility studies including: business assistance to existing cooperatives and process training for businesses interested in exploring cooperatives.

— Targeted exploration of new opportunities: Link rural producer cooperatives with anchor institutions in large urban areas (locally owned/locally grown) and study the feasibility of manufactured home park cooperatives.

— Provide general support and assistance to existing and developing cooperatives in Northern Ohio. This includes offering a community development lending program that provides loan review, financial packaging, and lending to worker-owned co-ops.

For more information contact Roy Messing at rmessin2@kent.edu (330-672-0333) or the OEOC main line (330-672-3028). OAW

Mark Your Calendars for the
24th Annual Ohio Employee Ownership Conference
“Going Forward With a Vision”

Keynote Speakers:
Kyle Seymour,
CEO, Xtek Inc.

Betty Sutton
US House of Representatives, OH 13th District

Jack Dover
Senior Advisor to Senator Sherrod Brown

Friday, April 30th, 2010
Hilton Akron/Fairlawn

Log onto www.oeeockent.org for more details

Owners At Work Winter 2009/2010
In Memoriam: John Logue
He founded and built the OEOC to take his work forward.

John Logue, founder and director of the Ohio Employee Ownership Center from 1987 though 2009, passed away on December 9, 2009 after a few weeks’ illness. He was Professor of Political Science at Kent State University and department chair 2004-2008. He wrote and published widely on both employee ownership and Scandinavian studies, and received numerous awards and national recognition for his work on employee ownership.

When asked by David Erdal, author of the book on employee ownership, Local Heroes, how he came to be involved with employee ownership, Logue chuckled and answered, “By accident.” His answer was not a joke. Just as he joined the Kent State faculty in 1977, the abrupt closing of Youngstown Sheet and Tube shocked the region. Logue’s work with the Ecumenical Coalition of the Mahoning Valley, a community group hoping to reopen the mill as a worker and community owned enterprise, drew him into research on employee ownership. Revival of Youngstown’s steel industry proved impossible, but the experience led Logue to create the OEOC in 1987.

Under his direction, OEOC’s mission, programs and services expanded around the central mandate of saving jobs and enterprises in Ohio, mostly through preserving existing companies, especially those at risk for closing when owners die or retire. Perhaps surprising to some, but entirely consistent with that mission, Logue joined with nonprofits in Cleveland to develop a network of new cooperatives, employee-owned enterprises for supplying goods and services to be purchased locally by the large anchor institutions in the vicinity of University Circle. (Anchor institutions are organizations with large investments in land and buildings in a particular locality that are unlikely to move from the area.) He was hospitalized shortly after escorting a group of Cleveland leaders on a study trip to the Mondragon Cooperative Corporation, the world’s largest and most successful network of cooperatives.

Logue moved easily and comfortably among the experts on his staff, guiding them with a light but sure touch toward the goal of saving jobs and building wealth for the people of Ohio. And he was always willing when others asked for help. Most recently, Anthony Jensen, who made two lengthy visits to the OEOC in 2008 and 2009, sent word that Australia had just created its own Employee Buyout Centre.

Readers of Owners at Work will be familiar with many aspects of the Center’s work. Without repeating what appears elsewhere in this edition, let us just say that Logue’s idea was that a call to the OEOC could always produce a helpful result.

Legendary for hard work and long hours, Logue authored or edited eight books and over sixty articles, many of which were written or translated into Russian, Norwegian, Swedish or Danish. He was born a professor’s son in Denton, Texas, and proud of the family tradition of Texas liberalism. He attended the University of Texas at Austin and was a member of Phi Beta Kappa. Princeton University, where he held a Danforth Fellowship for graduate study 1970-1975, granted his M.A. and Ph.D. Logue received a Research Fellowship from the Danish Social Science Research Council in 1978-79 and a Swedish Bicentennial Fellowship in 1980. “My post-doc,” he called those fellowships in the interview with Erdal. He also held a Fulbright Professorship at the University of Copenhagen, Denmark in 1992. KSU honored him with its Distinguished Scholar Award in 2002. For his work with employee ownership, the Ford Foundation/ Advocacy Institute gave him its prestigious “Leadership for a Changing World” Award in 2003. He was named “Ohio Cooperative Educator of the Year” by the Ohio Council of Cooperatives in 2003; and received a Doctor of Humane Letters honoris causa, from Alvernia College in 2005.

“A public intellectual, par excellence ...,” writes Associate Professor of political science and Director of the Center for Applied Conflict Management, Dr. Patrick Coy. “… the most pragmatic and grounded member of our [Evergreen Cooperative] team,” recounts Ted Howard, Executive Director of the Democracy Collaborative. Their and others’ abridged and edited tributes to Logue at his memorial service or on the internet follow.

Additional information and tributes are available at www.oeockent.org and at http://johnlogue.blogspot.com/.

Patrick Coy: “A public intellectual, par excellence ...,”

My task, to talk about John’s teaching, is difficult because he worked hard at integrating his teaching with his research and his activism. Put simply, John Logue was a public intellectual, par excellence.

When asked to comment on working in two worlds—the academic world and the so-called “real” world, John talked about integrity. Actually, John was simply incorrigible that way, some might even say annoying, because he would somehow manage to insinuate notions of integrity into most any discussion. He said:

“Frankly, there are many advantages in combining the two. There is a benefit from combining theory and practice. There are real advantages teaching about things you work with concretely. Combining the two imposes more of a sense of intellectual integrity on what we write and our research. There are also some unique advantages in being able to pose academic research questions that have immediate implications for our own applied work in the field.”
Teaching at a public sector university meant a lot to John. He thought our being a public university brought a “peculiar responsibility” to our teaching and research, and even our curriculum design. You knew you were in for one of his mini-lectures whenever he would start a sentence like this: “When the hard-working and good people of the state of Ohio plop down their hard-earned money for tuition to send their daughters and sons to us at Kent State for an education, we must…”

This son of Texas liberals was absolutely resolute about doing research that mattered to the lives of working people. Why? Precisely so that when we brought that research back into our classrooms it would also matter to our students – the children of those hard-working Ohio parents and taxpayers.

John Logue valued the Socratic method in the classroom. As we know, this is a structured conversation, a sequential dialogue where people help each other find sensible answers to perplexing questions. He was deeply Socratic because he liked to ask sequential “why” questions: “Why do so few workers have job security?” And then, “Why can’t it be different in Ohio, and in Pennsylvania, and in the United States?”

Even more he relished helping students and trainees to answer the more important “how” questions. How can we change the status quo? How can we decrease economic disparities? How can we reform the US electoral process? How can we make it more democratic, less beholden to monied interests? And then he would send his students out with applied assignments, requiring them to work in electoral campaigns, and with non-profit organizations and businesses, where they would move toward solutions to those same classroom questions, bringing their ideas and solutions back to the classroom for discussion.

He asked these “why” and these “how” questions because he was intellectually curious, and because he expected his students to be as well. For example, a student of mine who took European Politics with John last year wrote,

“His exams were really hard. When we got the study guide for his midterm my classmates and I freaked out. It was three pages long! …We also wrote a research paper… this could have been daunting for me, but Dr. Logue broke it down so sections were due throughout the semester, and he gave us good feedback about how to improve each section. I will never forget how proud I was of that paper and how good it felt to get that A from him. While his
class was probably the most difficult I have ever taken, it was well worth it because he challenged me.”

John wanted to empower students and workers to find the skills, and the power that was already theirs — unrealized but still present within them, just waiting to be tapped. He had a unique ability to call forth the power of others. Empowerment and challenge were his watchwords, not leadership. In fact, when asked about his leadership, he was typically self-effacing:

“I am cautious about my so called ‘leadership.’ I am definitely not what the journalists call ‘charismatic.’ I’m balding, with big ears; the requisite puff hairdo is missing. Leadership, like beauty, is in the eyes of the beholder. In truth, what I do simply is to help others to achieve things that they otherwise would not.”

I mostly teach in our Applied Conflict Management degree program. Because ours is an applied, skills-based degree, we try to use interactive and participatory pedagogies. John and I often talked about how best to teach this way, and he was selfless in sharing his experiences. He knew a great deal, because effective teaching and training for employee ownership is also interactive and participatory.

... So I simply end as I started: John Logue was a public intellectual, par excellence.

As he was always wont to do, our brother Logue has now gone on ahead of us. But not before he taught his students, and us, how to puzzle out some answers to the “why” and to the “how” questions in the here and in the now. For that we can be very grateful indeed.

Ted Howard: “the most pragmatic and grounded member of our team”

For the past three years, I had the privilege of working closely with John Logue as a member of the Evergreen Cooperative team – or as we think of it – the Evergreen family in Cleveland. Our goal is to create jobs and build wealth in low-income and disinvested neighborhoods of the city. John was part of Evergreen from its inception, and was our resident expert on employee ownership and worker cooperatives.

He was also the most pragmatic and grounded member of our team. When we would get caught up in the big picture national implications of what we were doing, John would gently reel us back in. How many times we heard him say, in his light and lilting Texas drawl, “It’s all well and good to talk about creating dozens of new worker owned companies, but if we don’t make sure the first two coops work, then we’ll never get to take the next step.” And how many times John would sit quietly in one of our meetings, listening to what he thought was one of our impractical schemes and blurt out, “Good Lord! You can’t be serious!”

John Logue was a scholar of the first order. For my money, there was no one in the United States who surpassed John’s understanding and detail about how employee ownership worked, its strengths and its limitations. As a scholar, he was relentless in his pursuit of accuracy and he was always intent on learning more. He had a deeply curious mind. On the two study trips to Spain our Evergreen team took, I sat with him in meetings with leaders of the Mondragon Cooperative Corporation as John asked question after question after question to understand how, precisely, dividends were allocated, how they were taxed, what interest rate was paid on employee accounts, and on and on and on… That man could ask questions until it made my teeth hurt!

But what was most important about John’s academic career was his stand and commitment to be an ENGAGED scholar. No ivory tower for John. His life within the academy had a goal, and that was to address critical social issues and contribute to the public good. John was a true believer in the democratic life of our nation. He understood democracy as a living, breathing ideal, as suitable to the workplace as it was to the political process. And so John and his colleagues at OEOC not only studied employee ownership, they provided hands-on technical assistance and support to transform dozens of companies into employee-owned businesses. John was passionate in his belief that workers should reap the benefits of their labor by owning their own jobs. Through John’s work, more than 14,000 Ohioans are owners of their workplaces, and this state is recognized around the country as a national leader in employee ownership.

Sadly, John has left us. But like another champion of America’s working men and women, Joe Hill, the great American labor organizer of the early 20th century, John Logue and his vision lives on, his cause continues: alive as you and me. Joe Hill famously wrote at the end of his life, “Don’t mourn. Organize.” I suspect those are words our dear friend Brother Logue would recommend to each of us.

Steven DeVol: John helped us to begin our journey. Twelve homeless people with mood disorders own and operate a social cooperative business named the Catholic Internet Television Network, in large measure due to John’s guidance and encouragement. You really do make a difference in people’s lives.

David Ellerman: John’s sudden passing brought an end to a life of remarkable achievement. In the time I knew him, he traversed a great arc from a young political science professor working on European social democracy to a tireless advocate of democratic worker ownership and a pragmatic builder of organizations and networks. Along the way, he worked to promote these ideas in the post-socialist countries (particularly Russia) as a better way to make the transition to a market economy. And along the way, he projected that even keel and unflappable good humor of a solid midwesterner who put people at ease wherever he was and who usually persuaded them that his ideas were just damn good common sense. He was one of a kind and will be sorely missed. OAW
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early all longer term employee ownership in the United States is through employee stock ownership plans or ESOPs. We like to say that ESOPs are like snowflakes: no two are alike. Outside the US, most employee ownership is through cooperatives, and after reading Matt Hancock’s engaging description and analysis of the Imola cooperatives, you will conclude that no two of them are alike either.

Hancock’s subject is the cooperative movement in Imola, a district capital of 65,000 outside of Bologna in Northern Italy. It is the community in Italy where cooperatives of all sorts – employee, consumer, financial, agricultural, and social service – play the largest role in the economy. Over 50% of the population of Imola and the surrounding district are cooperative members, and 17% of the area’s workforce are employed directly by cooperatives. Fourteen manufacturing cooperatives, which are Hancock’s primary subject, constitute a major portion of the bedrock of Imola’s economy. They account for at least half the manufacturing output, he writes (p. 17).

Unlike American ESOPs or the Mondragon cooperatives in Spain which both trace their beginnings to 1956 – respectable middle age, the Imola manufacturing cooperatives trace their origins back into the 19th century before Italian unification. Giuseppe Mazzini, one of the founders of the modern Italian state, was a strong supporter of cooperatives to reduce the conflict between capital and labor. The oldest surviving co-op in Imola, Cooperativa Ceramica, was converted from a family business to a cooperative in 1874, in part because of the owner’s son’s belief in Mazzini’s arguments. Historical roots run deep in Imola.

Hancock traces those roots from the 19th century through World War I, Mussolini’s fascism, World War II, and postwar reconstruction. The post-war Italian constitution provides specific recognition of cooperatives. Occasionally we are reminded of how much society has changed over this period. In the rural districts around Imola, for instance, sharecropping by landless agricultural workers was common in the past. The sharecroppers’ co-ops were a major force for the advancement of the poorest in the agricultural districts and, as such, were much hated by the landlords. Riunite, the wine company, for example, originated as a sharecropper cooperative through which landless agricultural workers marketed their share of the grapes they grew.

The politics of the Imola co-ops has historically been to the left. They originated from the socialist movement and, after World War II, became largely Communist. The Italian Communists never fit the Soviet norm, but it’s still mildly amusing to have business organizations associated with the Communist Party. Elsewhere in Italy similar cooperative groups are often affiliated with the Catholic cooperative federation, and some in Imola affiliate with both groups. The heritage of the left can also be seen in distribution of profits. Profit sharing cannot represent more than 30% of a member’s total compensation (which includes wages, profit sharing and interest on members’ accounts), but 30% of compensation represents a substantial incentive.

From an American perspective, what is perhaps most striking in Hancock’s account is the argument he hears constantly from those he is interviewing that the cooperatives are an intergenerational asset. “Today’s cooperative leaders see the cooperatives as a community economic asset. Current members are simply beneficiaries of wealth created through the sacrifice, investment and careful management of their forebears. As such, members have the very serious responsibility of protecting that wealth and expanding it for future generations, just as the cooperators before the current generation did (p. 53).” Hancock quotes Giuliano Dall’Osso, the president of one of the manufacturing co-ops, describing his cooperative as part of the “‘patrimony of the local community… wealth for the territory, something for my children… wealth for future generations (p. 55).’”

This is, of course, a sharp departure from the American emphasis on employee ownership as a method of wealth creation that is only better if it is speeded up by a lucrative buyout offer from a conventionally owned firm.

Tax rules seem to be designed to encourage that long-term perspective. The Basevi cooperative legislation of 1947 provided that co-op funds placed in “indivisible reserves” (capital that belongs to the co-op members as a group but which cannot be divided among them individually) were tax free. More recent legislation in 1977 provided that, in the event of the dissolution or sale of the co-op, the value of these reserves go to the cooperative development funds, rather than to the members. Hancock notes that in 2006 69% of earnings were allocated to indivisible reserves, which, he says, “represent a form of inter-generational solidarity, guaranteeing current and future members stable employment and high wages as well as insuring that the local community will continue to benefit from the current and future wealth created by the co-ops (p. 57).”

More recent legislation reduced the indivisible reserve tax exclusion to 70% in co-ops where a majority of workers are members and to 30% in co-ops where a minority are members.

The Imola co-ops aren’t very pure ideologically. One of their striking aspects is that members constitute only a minority of workers in many of them. That is related to the high membership fees, ranging up to 100,000 euros ($150,000 at the current rate of exchange).

The Imola co-ops have developed into players in the global economy. SACMI, for example, exports over 80% of its Italian output, while it has internationalized with 24 foreign subsidiaries. Hancock writes that 30% of the entire Italian cooperative sector’s output is exported, and that the sector’s growth is largely export driven.

A final major secret of the Italian cooperatives (like the Mondragon cooperatives) is their collaboration to achieve economies of scale while keeping a reasonable scope of control. The provincial “industrial service centers” provide joint services for cooperatives and other small businesses by sector — including export services and a range of business services. The co-ops also have their own private equity fund, Asscooper, which supports starting new cooperatives and the expansion (and restructuring when needed) of existing co-ops.

In addition to the rewarding content of this book, it is a dual language edition, so you can use it to perfect your Italian. oaw

John Logue


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Spring 2010 Events

Wednesday, March 24
7:30 a.m.-11:30 a.m.
Crowne Plaza, Cincinnati/Blue Ash
Leadership Team Breakfast Roundtable

Thursday, April 29
Akron/Fairlawn Hilton
CEO Roundtable
CFO Roundtable
HR/ESOP Communication Roundtable
Company Showcase Reception

Friday, April 30
Akron/Fairlawn Hilton
24th Annual Ohio Employee Ownership Conference, “Going Forward with a Vision”

Wednesday, May 19
9 a.m.-3 p.m. Cincinnati/Blue Ash Crowne Plaza
SW Ohio Employee Ownership Forum

Wednesday, May 26th
Catawba Island Club
(between Cleveland and Toledo)
CEO & CFO Networking Dinner
Hosted by Carbo Forge

Thursday, June 17, NE OH
ESOP Fiduciary & Administration Forum

To register, call the OEOC at 330-672-3028
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Other Events of Interest
March 16th, 2010
The ESOP Association OH/KY, IN Chapters - Annual Spring ESOP Conference
Powell, OH
email karrie@esopchapters.com for details

April 20-22, 2010
National Center for Employee Ownership - Annual Conference
Minneapolis, MN
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May 4 - May 6, 2010
National Cooperative Business Association - Annual Cooperative Conference
Washington, D.C.
Call 202-638-6222 for details

August 12-14, 2010
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