In April 2001 when PG&E declared bankruptcy, ACRT’s annual revenues were $13 million. PG&E owed ACRT $1 million. Of ACRT’s 240 employees, 130 were located in California, and most of them worked on the PG&E account. By declaring Chapter 11 bankruptcy, PG&E would not pay current creditors what was owed them but would continue operations and pay future liabilities. Thus, ACRT was faced with the likelihood that it would never collect the $1 million owed by PG&E. On the other hand, PG&E said that going forward it would be “business as usual,” so ACRT’s work with PG&E would continue on a normal basis.

When he heard the news, Dick Abbott, Chairman and CEO of ACRT, knew that within 30-60 days the company would have a severe cash crisis because it would not receive its normal payments from PG&E. Mike Weidner, ACRT’s President, added that unless changes were made, the company would not be able to meet its payroll. Given the severity of the crisis and the need for quick action, Abbott considered announcing immediate policy and procedure changes. But he resisted that temptation and (Continued on page 2)
focused on performing billable tasks; field management (overhead) to perform billable services; Among the changes implemented were: calls to brainstorm solutions. Top management flew out to California to meet with employees. Weidner explained that most of the workforce consisted of forestry professionals with similar backgrounds and mindsets. “We perform pre-inspection, auditing, and tree trimming and removal services. The employees knew we all had to pull together. Being an ESOP helped. We all knew that if the company came through this, we would all benefit.” Still, as Todd Jones, then Vice President of West Coast Utility Services, said, “Initially, the employees were primarily concerned about their own jobs. There was a misconception that because PG&E had declared bankruptcy that all the California ACRT employees would lose their jobs. We had to explain the nature of a Chapter 11 bankruptcy and assure them that their jobs would continue.” The 130 employees of ACRT were scattered throughout California, so effective communications were a challenge. “We communicated via conference calls to supervisors, memos, e-mails and the company newsletter,” explained Jones. “PG&E helped considerably as they also communicated to everyone that their jobs were safe.” Only 1-2 employees left the company at that time.

Weidner stated that the steering committee decided very quickly that the best approach for handling the crisis was to be totally open with the employee-owners and to explain the severity of ACRT’s cash crisis to them. Cash outflows had to be minimized quickly, and cash inflows had to be maximized just as quickly. The management steering committee, headed by Weidner, solicited employee input. It conducted daily conference calls to brainstorm solutions. Top management flew out to California to meet with employees.

Among the changes implemented were:

- field management (overhead) to perform billable services;
- focus on performing billable tasks;
- delay of merit pay increases;
- processing of pay and billing rate increases for people with additional credentials;
- delay of vacations;
- carpool;
- buy cheaper gas;
- delay scheduled maintenance where possible.

Everyone in the company made sacrifices—Ohio and California employees as well as management and non-management.

Diane Bartlett, CFO, was open and honest with vendors in explaining that ACRT would be delaying payments 90-120 days. Some vendors chose not to help, but most did. Bartlett was also open and honest with Huntington Bank, and Huntington stayed with the company.

Abbott commented, “Because of the ESOP, employees pulled together and found ways to reduce costs. They were much more aggressive than they would have been without the ESOP, almost to the point of being stingy. If I had declared the things they did, they would have been up in arms. As it was, the complaints were small.”

What happened? The quick actions of ACRT’s employee-owners averted the cash crisis and kept the company afloat during the 4-6 month crisis period. Said Jones, “We were a better company. People concentrated on saving money.” Weidner explained that ultimately the $1 million receivable from PG&E was factored (sold) for 90 cents on the dollar. The company was able to pay off its ESOP loan in 3 ½ years instead of the 5-year term of the loan, and 2001 was its best year ever!

Dick and Sue Abbott, ACRT’s majority owners, are now in the process of selling their remaining 67% ownership to the ESOP. As they and the employee-owners of ACRT can attest, ESOPs work!
Editorial: United Airlines

The problems at United Airlines have become a Rorschach test for anyone who wants to comment on ESOPs. Articles on United and its ESOP run the gamut from “the ESOP had nothing to do with it” to “I told you ESOPs will never work.” Our view, based on our experience and research with Ohio ESOPs, is that employee ownership doesn’t help without communication, training, and participation to promote employee understanding and involvement.

First of all, having an ESOP doesn’t offer any protection from business problems. United had serious troubles from a national recession and intense competition. Then came the events of September 11, which greatly depressed air travel. United didn’t react quickly to any of these problems. No doubt everyone was hoping for a rebound.

One symptom of such unrealistic views was United’s huge settlement with the machinists union last June, when management agreed to a 47% increase in wages over five years. Another symptom was the reluctance to face the choice between wage cutbacks and layoffs. Unions pushed through last-minute wage concessions, but they weren’t enough to keep United solvent (a billion a year) and meet its upcoming pension obligations (another $1 billion a year).

Even now that United is in bankruptcy and jobs are on the line, unions accuse management of withholding information. And a 14% reduction in management and salaried employees announced on January 4 is likely to be followed by layoffs in other areas.

It’s painful to cut back in hard times, but it’s the strength of capitalism that private companies can flex with a changing economy. Almost every successful business owner old enough to have grey hair has suffered through set backs, tightened their belt, put in capital from friends and family, raised funds, and restructured to develop new product or services. The reward for toughing it out and surviving can be glorious profits.

We know that employee ownership, combined with participative management, can help a company get through rough times and grow in good ones, but it’s not easy to put structures in place and use them effectively to build interest and participation. From our 1992-1993 Ohio data, we estimate that at most only about 20% of employee-owned companies have made extensive efforts to establish participative practices and structures (John Logue and Jacquelyn Yates, The Real World of Employee Ownership, Cornell University Press, 2001). United made efforts at increased employee participation and cooperation for about a year after its ESOP was created, but because of loss of key leadership at the top, resistance of middle management, and the difficulties of working with multiple unions with highly unequal compensation, efforts to create an ownership culture were abandoned. Another problem was that stock distribution to employees ended in 2000, so there was no way for additional employees to become owners.

United’s sheer size — more than 80,000 employees — would have made the process difficult. It’s hard to feel like an owner in such a large company. And perhaps the nature of the airline business was a problem, too. An airline has a national market and must offer a uniform product to that market. It must follow law, regulation and practice nationwide. Change can’t be piecemeal in such an industry. The company must move forward as one. Building participation under those conditions would be challenging even in prosperous times.

Sadly, requirements of bankruptcy law and fiduciary responsibility may deny United’s employee-owners any chance to hang in and rebuild their business. Their ESOP trustee, State Street Bank and Trust, sold some stock from the plan at 3% of its original value, and AON Fiduciary, the 401(k) trustee, planned to sell stock as well. The trustees’ duty is to preserve stock value, but since the stock has already fallen to almost nothing, what employee-owners will lose is not only their investment, but also any hope of recovering it, because they will no longer have grey hair. For now, some employees have won a restraining order to stop State Street from selling any more stock.

The lesson from the United story is this. Employee ownership works best with full communication between employees and management, broad training so everyone can understand the financials, appreciate how company produces its product, and work together effectively. Appropriate practices are needed so everyone’s voice can be heard, everyone’s concerns addressed, everyone’s knowledge brought to the management process. This isn’t easy, ever. But learning to do it and keeping the commitment to make it work pays off over the years. Employee-owned companies shouldn’t ignore the United lesson. They should start building a system of participative management now and create the organizational resources they need to survive in tough times.
Worker Owned Restaurant Promotes Healthy Entrees and Entrepreneurs

Karen Thomas

The cooperative La Casa Nueva Restaurant and Cantina in Athens has expanded on its own success to become a catalyst for economic growth in southeast Ohio. “We buy 85% of our supplies from local producers to improve the economy of our community,” said Casa’s Board President Josh Brown. Casa also actively supports a production and marketing network of over 40 regional food producers (see ACENet story).

Casa is owned and managed by its 25 current members, each with an equity investment and a commitment to promote good, healthy food and a healthy local economy. Last October, the members and 25 part-time associates celebrated 17 years of profitable operations.

Casa buys local

“We could buy our jalapeños cheaper from California or Mexico through larger distributors,” explained Brown, “but instead we work with local farmers, who produced a bumper crop of 3,000 pounds of organically-grown peppers for us this year. Our Cantina offers an all-Ohio tap of microbrewery beers.”

Bill Shores, owner of Green Edge Gardens in Amesville, supplies Casa with vegetables and greens. “I have been an organic grower for the past six years and customers like Casa make it possible. Casa represents 25% of my business and is great to work with.”

“We base our seasonal menus on what local organic farmers can provide,” explained food buyer and 12-year member Mike ‘Da Knife’ McNieff who with other members of Casa’s Culinary Development Committee generates ideas and tests new recipes.

The Autumn Seasonal Menu featured roasted red peppers, corn, dried tomatoes, local apples and fall greens in various entrees and salads. The new Paw Paw Flan dessert features a locally harvested native fruit supplied by paw paw puree pioneer Chris Chmiel of Integration Acres. Breads and tortillas are baked from scratch daily.

Rob O’Neil, The Bounty Hunter for Casa, gathers and prepares local produce. He bottles salsa, jam and dressings, pickled peppers and asparagus, and freezes blueberries and other seasonal produce.

“We strive for a balance between good food and costs. We serve high-quality organic food at affordable prices because we work with multiple producers for long-term guarantees of volume, and we ask them for reasonable price,” explained Leslie Schaller, one of eight Casa founders and current Business Director.

Community involvement

“Our members share a sense of place in this community,” explained Schaller, “and they want to make a difference. We helped write Ohio’s newest cooperative business law, and we host forums on political and educational issues. The Athens News voted Casa ‘Best restaurant with some kind of conscience’ for the past eight years.

“When new corporate restaurants opened here in 1999, we organized locally-owned restaurants into the Athens Independent Restaurant Association which formed in November 2001. We pool marketing efforts and purchasing to promote our common survival.”

From turnaround to trendsetter

Casa Nueva opened for cooperative in 1985, when the much-indebted owner of Casa Que Pasa, a local Mexican restaurant, skipped town. As then-manager Schaller recalled, “A group of us [employees] ran the business until the bailiff showed up. Then we incorporated as a cooperative within a C corporation.

“Each founder put up $1,000 and bought the assets out of receivership. We got local bank loans for working capital. We showed a profit in the first year and enjoyed double digit growth for the next decade,” said Nancie Buerkel, Casa’s financial coordinator and a member since 1989. “Today we make $1 million plus in annual sales.”

Today Athens has four times as many food service venues as it did 17 years ago when Casa opened. How does Casa survive?

“We stay on the forward side of the trend curve,” explained Schaller. “Cooperative businesses are getting trendy again be-
 owns at work

sharing helps us work better as a group,” said Nicole Icker, a living wage, where in other restaurants you get a lay-off. Tip-pooled across all shifts and jobs. “In slow times we all make a including a tenure differential based on hours worked. Tips are Members and associates earn between $7 and $10 per hour, whose who prepares the daily specials.

Members make an initial owner investment of $1200 through payroll deduction for a two-year commitment. They earn yearly profit dividends and a return on their investment over time. When they leave they can take additional earnings as a 5-year payout or a ‘donate-half-get-half-now’ arrangement.

“Member accountability is a key issue for cooperatives,” said Buerkel. “We use committees, teams, and ad hoc meetings for decision making in an experimental, learning approach. We discuss policy at bi-monthly all-member meetings on unpaid time, and we make decisions by simple majority voting.

“We get antsy and sometimes step on others’ toes, so meeting facilitation is important to us. We train ourselves to use agendas and egg timers to manage our meetings.”

Seven members are elected to the board each year. They earn an additional 25 cents per hour. Members often vote for persons who will gain new skills through board service.

open books and shared profits

All financial information is open, so everyone sees the direct consequences of decisions. New members get ten hours of training on business financials and the internal capital accounts that track members’ investments in the cooperative. At year’s end, 40% of profit is retained and 60% is distributed to members through a patronage dividend.

One 6-year member described her work as finance coordinator, “I was a theater major and didn’t understand financials but was psyched about ownership and wanted to get everyone else psyched too. I treated us like we were in first grade. I showed the relationship of shift scheduling to costs and used lots of simple examples. I used lots of graphs and pie charts, and posted the financials on our freezer. I made the numbers fun.”

Casa’s business plans, sales records, financial goals and accomplishments are posted on the doors of stainless steel kitchen coolers named Dopey and Sneezy where members sign up for their weekly 40-hour shifts. All are required to work on weekends.

shared gains and pains

Members and associates earn between $7 and $10 per hour, including a tenure differential based on hours worked. Tips are pooled across all shifts and jobs. “In slow times we all make a living wage, where in other restaurants you get a lay-off. Tip-sharing helps us work better as a group,” said Nicole Icker, a recent OU grad in food service management.

Group benefits include health insurance, a dental plan, and paid personal time as well as one free meal per shift and off-duty meals at half-price. A retirement plan is in the works so members can look at Casa as a career.

Hiring Team members look for people with enthusiasm about a different job environment and positive energy. New employees have a 6-month trial period training in as many different jobs as possible, starting on the floor and working back into the kitchen.

training entrepreneurs and leaders

Casa has also hatched entrepreneurs and spin-off businesses.

Former member Christine Hughes, 33, opened The Village Bakery Café in Athens one year ago and still can’t believe that she already owns a business with four employees. “It all started

“I was a theater major and didn’t understand financials but was psyched about ownership and wanted to get everyone else psyched too.”

One day five years ago when I heard about Casa on NPR and liked the idea of cooperatives.

“I moved here and got involved with Casa. Baking became my focus and I worked with others to develop Casa’s bread recipes. Now Casa features me on their menu for some of their seasonal and special breads. I made Roasted Tomato and Rosemary Flatbread for Casa’s Open Face Autumn Sandwich.

“Being a member was so much responsibility but I got a feel for all aspects of business. I worked as a coordinator, went to board meetings, worked on the P&L, figured out our costs, and improved my skills in communicating effectively in a small group. I had to be completely responsible for my vote, especially when I was the one person blocking a new system or policy. The Casa experience gave me confidence and experience.”

Casa teaches business skills in a low risk environment, explained Schaller. Each member has to deal with twenty or more other members in a professional setting and come to good decisions.

Student member Greg Lyle waits tables, tends bar, and puts together the income statement and balance sheets. In his role as Finance Coordinator he also educates members on finances.

Does a cooperative restaurant make sense?

A former managing a corporate restaurant, board VP and Treasurer Nicole Icker found it “a tough transition” to Casa.

“It’s obvious that corporations are successful,” said Icker. “They run the world. But cooperatives change the way you think. I find myself thinking the Casa way now and it amazes me. Casa puts the human side into business. It’s not what I’m used to, but it makes sense here.”

“Restaurants are ideally suited to be cooperatives,” added Brown. “We offer a unique and inviting environment with

Focus on Cooperatives
good affordable food, good music, and great service. We have art shows. It’s an upbeat place. We show appreciation for our customers.”

Turnover is very low at Casa. Only 1 or 2 members leave each year and the median length of members’ employment is 5 years, compared to six months in a typical Athens restaurant. “Casa has been fortunate because 35% of our coordinators have been here five or more years, and half have been here over 12 years,” said Schaller.

“The cooperative structure does make running a restaurant more challenging,” explained Matt Marenberg, Marketing Coordinator. “Sometimes there is tension between the amount of energy it takes to run a restaurant and the amount of energy it takes to maintain a cooperative.”

“Size has been an obstacle for us as a cooperative. Fifty employee-members trying to make decisions together is difficult. We can’t always keep track of everything that’s going on,” said Heath Stevens, the Front of the House Coordinator. Growth has also increased the number of nonmembers working in the cooperative. Only 40% of the current employees are owners.

But “after 17 years we are still growing,” said Icker. “Growth is difficult, but with so many minds at work in a cooperative the sharing of ideas is phenomenal. We experiment when we have new situations. We take a lot of pride in this business, and that’s completely what it is. People, for the most part, take pride in working here because you own a part of the business.” Check out http://www.casanueva.com/ for updates on Casa’s menu, entertainment, and specialty foods.

ACEnet Boosts Sustainable Farming Growth in Southeast Ohio

Read the menu at Casa Nueva and enjoy a culinary tour through the rolling hills and meadows of southeast Ohio. The region has a rich tradition of small-scale fruit and vegetable production, and today a new crop of organic growers supply ingredients for the tasty fare produced and marketed by Casa and other local food-related businesses that are growing in popularity.

ACEnet, the Appalachian Center for Economic Networks, is what brings southeast Ohio’s local food entrepreneurs together. As a community economic development organization, its mission is to build the capacity of local communities to network, innovate, and work together to create a strong, sustainable regional economy that has opportunities for all.

ACEnet is rebuilding much of the area’s old food production system that was dismantled in the 1940s and 1950s with the growth of national agribusinesses. Today in Athens County, the region’s population center, 33 percent of residents live below the poverty line. Many area residents must do a patchwork of jobs and small scale farming to survive. ACEnet and its Food Ventures’ Center aims to improve that situation by serving over 200 small food producer-entrepreneurs in the 14-county region. ACEnet has incubated 45 new businesses.

Since 1996, ACEnet has operated a 12,000 square foot commercially licensed Community Kitchen Incubator open 24 hours a day/seven days a week on a time-share basis for 70 small food businesses. The Food Ventures Center offers a bottling area, commercial food prep kitchen, cooling room, packing room, pasta drying room, and a warehouse with freezers, coolers and pallet storage. This frees new businesses from costly investment in facilities and equipment. Kitchen Manager, Bill Justice, helps producers commercialize their products with shelf life analysis and batch-testing. The center also works with area schools and food businesses in providing industry-specific workforce training. In 1994, ACEnet started a loan fund to provide startup capital for area food and technology businesses. The first micro loan went to Frog Ranch, one of eight salsa manufacturers in the area, which now does $1 million in annual sales. In 1999, ACEnet started a venture fund.

ACEnet helps bring producers and customers together. A Food We Love campaign markets locally produced items in area Krogers’ and twenty other stores. Good Foods Direct, a marketing program developed with help from Rural Action, an advocate for sustainable development in the region, helps farmers and growers locate local customers. The Athens’ Farmers’ Market draws a weekly crowd of 2-3,000 people who purchase over $40,000 in products from 70 local vendors. SE Ohio’s two main food festivals, the Chile Pepper Festival and the Paw-Paw Festival, draws tourists and locals to enjoy local food products.

ACEnet’s theory is that what grows a community’s assets and transforms an area’s economy are the relationships that small businesses develop with other businesses, community organizations and new markets that demand high quality. Their experience shows that building these relationships generates new economic activity for years to come. And that should provide tasty temptations for future diners at area restaurants.

Focus on Cooperatives
How to Sell Your Business to Your Employees through a Worker Cooperative – and to Shelter Your Capital Gain

Eric D. Britton & Mark C. Stewart

Many business owners would like to take advantage of Section 1042 of the Internal Revenue Code (IRC §1042) to sell stock in their company without immediate taxation of their capital gains, but are deterred by the complex and potentially onerous rules imposed on Employee Stock Ownership Plans (ESOPs). However, selling to an ESOP is not the only way to defer capital gains under §1042. A stockholder can also use a §1042 election to avoid immediate taxation of the capital gains if he or she sells the stock to a worker cooperative. While workers cooperatives are less well known than ESOPs, they avoid some of the legal complications associated with an ESOP, and in the right circumstances may be a more attractive way to sell a business to employees.

What is a cooperative?

A cooperative is incorporated to do business “on a cooperative basis.” That means that, instead of generating a profit for stockholders as such, its primary goals are to benefit its members (“patrons”) by providing common services or other inputs to members they cannot efficiently provide for themselves, or by marketing the product of its members. Any “net margins” (roughly equivalent to profits) that a cooperative business generates would be shared by the members in proportion to their use of the cooperative’s services, or the type, quality and volume of product marketed through the cooperative, not in proportion to the capital they contributed.

A worker cooperative is a cooperative formed by employees primarily to jointly market their services or the products of the labor of the employee-members. Employee-members receive their salaries or wages, and are also entitled to share any net margins, in proportion to the work they have contributed. Further, a majority of the members of a worker cooperative must be employees of the cooperative, a majority of the voting stock of the cooperative must be owned by members, and at least half of the Board of Directors of the cooperative must be elected by the members on the basis of one-person, one-vote.

Unlike ESOPs, worker cooperatives are not employee retirement plans and are therefore not subject to the numerous restrictions imposed by the Employee Retirement Income Security Act of 1974 (ERISA). As a result, using a worker cooperative as the buyer can avoid such regulatory burdens of an ESOP buyout as extensive legal and consultant fees to establish the plan; hiring a bank trustee or other independent plan fiduciary to represent the workers’ interests; conducting regular independent ESOP appraisals; IRS and DOL plan audits for administrative compliance with ERISA; filing Form 5500 reports with the U.S. Department of Labor, making a plan subject to audits or ERISA enforcement action by the Department of Labor; the elaborate non-discrimination rules imposed on qualified retirement plans; the strict rules requiring ESOPs to provide terminating employees with a put option and offer to repurchase their equity (although as a practical matter a worker cooperative should have some plan in place to buy out the equity interests of retiring members).

While cooperatives are much cheaper to establish and maintain than ESOPs are, they have fewer tax advantages. Under Subchapter T of the Internal Revenue Code (IRC §s1381-1388), cooperatives may exclude from their taxable income certain allocations of profits attributable to business done with or for the cooperative’s patrons. In turn, the members report this income as if they had received it in the first place. This “passthrough” of income is in some respects similar to a Subchapter S corporation. And, like a Subchapter S corporation, co-ops normally distribute at least enough cash to their members to pay their taxes. So unlike ESOPs, where taxes are not paid when money goes into the plan but only when it comes out in distributions to retiring ESOP participants, in co-ops taxes are paid when money goes into the members’ accounts. On the other hand, because the taxes have already been paid, co-op member accounts are distributed to the members tax-free when they take the money out. There is also no tax penalty or further tax on the employee’s current access to his/her account, as would be the case in an early distribution from an ESOP.

The biggest non-tax difference between an ESOP and a cooperative is that an ESOP is a trusted retirement plan in which employees who are ESOP participants may or may not have any influence on company policy. By contrast, a cooperative is a membership organization in which employees are active members and elect a majority of the Board on a one-person, one-vote basis.

How do employees buy a business through a cooperative?

When employees buy a business from the current owner through an ESOP, extensive tax law and U.S. Department of Labor regulations are supposed to protect employees. In a worker cooperative, employees are decision-making members – rather than participants in a trusted plan. To protect their own interests, the employee-members should exercise the same due
diligence they would in buying any other business in their own names or, for that matter, buying a used car.

The Board (or other decision-makers) for a worker cooperative considering a buyout do not have to satisfy the strict requirements ERISA imposes on ESOP fiduciaries, but they do have fiduciary duties under state law in connection with the formation and operation of the worker cooperative. These include:

- the duty to conduct the cooperative’s business in the best interests of the employee members as patrons (first priority) and in the members’ interests as investor owners of the cooperative’s equity capital (second priority). This subordination of capital interest to the interests of patrons is a unique feature of doing business as a cooperative; and
- the requirement that the cooperative account for and allocate its profits (net margins) from employee-member work inputs in accordance with the tax rules of Subchapter T of the Internal Revenue Code – that is, in proportion to the value and amount of each employee’s inputs.

**Choices in selling to a cooperative**

A current owner who wishes to take advantage of §1042 by selling to the employees through a cooperative has at least two options available under Code §1042. The owner could either (A) encourage the employees to form a worker cooperative that would buy part or all of the stock and at least temporarily exist as a separate holding company to hold the part of the business’s stock it purchases for the benefit of its employee-members, or (B) convert the existing corporation into a workers cooperative immediately, which would then redeem part or all of his or her common stock.

The first structure is comparable to the ESOP. A separate entity will purchase an owner’s stock in the target company. This structure is cumbersome, however. It causes the improbable result that the workers cooperative is merely a non-operating entity (without any reason for employees) whose only asset is stock in the target company, and operates somewhat like an employee leasing company.

Consequently it makes more sense -- unless there is strong reason to the contrary -- to convert the company to a worker cooperative and provide that the cooperative redeem the owner’s stock in the company being purchased. This redemption would be the legal equivalent of a sale of the owner’s stock in the company to a worker cooperative as contemplated in IRC §1042.

There are no conceptual or legal problems with this strategy if the employees buy 100% of the stock in the company in a single redemption. That, however, will often create significant financing problems. Those are generally solved through a multi-stage sale over a period of years.

However, if the owner sells shares to the worker cooperative in several stages, the owner may find the conversion of the company into a worker co-op worrisome, since control of the board passes from the owner to the members of the cooperative at the time the company is converted into a cooperative. One way to deal with the owner’s potential concern over loss of control is to build in protections (through supermajority voting requirements) for the owner until all of his or her stock has been redeemed.

Converting to a worker cooperative immediately has two notable advantages from the seller’s perspective relative to an ESOP. First, it justifies a control premium for the initial sale of stock, even if it is a minority stock interest, because the majority of the board is elected by the members of the worker cooperative on a one-person, one-vote basis. Second, the seller and his/her close relatives (who cannot participate in the ESOP) can be included as coop members in patronage allocations — provided they are actively employed in the business and become members of the worker cooperative under the same rules that pertain to other members and provided they do not receive 1042 rollover stock.

**Here’s how you do it**

The steps that would be necessary to implement a sale of stock of an existing business to a worker cooperative under §1042 are not particularly complicated.

First, the employees who are interested in pursuing the buyout form a Co-op steering committee authorized to act on their behalf. It should obtain professional advisors, including a financial advisor to prepare a feasibility study to evaluate whether a buyout could be financed successfully at a purchase price the owner would find attractive. Obtaining an independent appraisal of the value of the company’s stock also makes sense at the time of each transaction.

Second, if the Co-op steering committee decides to form a new worker cooperative instead of converting the existing business, they will need to incorporate a cooperative under the relevant state law, and appoint a Board of Directors and officers of its own. If they instead wish to convert the existing business into a worker cooperative, the steering committee will need to revise the articles and by-laws to be suitable for a worker cooperative. In either case, Ohio’s new Cooperative Law is likely to be more amenable to a worker cooperative than most states’ cooperative statutes.

Third, the Co-op steering committee and Board should work with their professional advisors to develop an appropriate set of articles and by-laws for the worker cooperative, defining who will be eligible to be a member, how the business will be operated on a cooperative basis (e.g., how net margins will be defined and how each member’s labor inputs to the cooperative should be quantified and compensated), how any net margins of the cooperative will be allocated and distributed, the amount of equity capital each member will be required to invest in the cooperative, and the members’ right to participate in control of the cooperative. The cooperative’s articles or by-laws will need to specify that voting will be predominantly on a one-person, one-vote rule, not by share ownership.

Fourth, the new worker cooperative and current owner work together to locate financing for the buyout. In some cases, the owner could provide some seller debt financing, although this should generally be avoided to obtain the full benefit of the (Continued on page 14)
A new and potentially huge benefit has recently become available to members of Ohio’s Employee-Owned Network. The OEOC has signed an affiliation agreement with MainStreet Cooperative Group. As a result, Network members will be able to participate in a group purchasing cooperative for the purchase of non-core business services. These are services that are common to virtually all businesses but are not the focus of any of them, such as insurance, credit card and payroll processing, waste hauling and overnight express delivery.

MainStreet has negotiated preferred purchasing programs with Preferred Vendor Partners. Through the OEOC’s affiliation with MainStreet, Network members will benefit from:

- better pricing and service
- an annual rebate of dividends based upon the amount purchased.

By aggregating purchasing power, MainStreet has built programs that are better than what individual Network members could obtain on their own. Through affiliation with MainStreet, Network members join 12 other purchasing groups, representing over $7 billion of purchasing power. MainStreet represents the combined purchasing of all of these entities so that they can drive the best deal possible. For example, DHL will provide overnight letter delivery services for $6.05 to MainStreet members, a saving of more than 50% off the normal overnight rate. Volume is strength!

MainStreet will also work to inform Network members of new programs as they are introduced, assist members in the event of a dispute, and audit the programs annually to ensure that they are competitive. At year-end, the Preferred Vendors will pay a previously negotiated rebate to MainStreet based on purchase volume. In turn, MainStreet will pay 50% of their annual rebate check back to the OEOC to help defray some of the OEOC’s expenses. Correspondingly, the OEOC will pay 50% of its annual rebate check in the form of a patronage dividend to Network members based on the member’s purchase volume. The Network member’s $100 annual fee for joining MainStreet’s group purchasing coop will be deducted from their annual patronage dividend check, so there is no out-of-pocket expense to Network members for joining MainStreet.

This group purchasing program will have no impact on the Network member’s core business. For example, this purchasing group will not help a steel mill in its purchase of raw stock. This program is designed to develop great pricing and service on non-core or ancillary products and services.

Don Collyard, Vice President of Marketing for MainStreet, introduced the group purchasing concept to an enthusiastic group of Network company managers at a series of sessions held throughout Ohio in Kent, Toledo and Dayton.

The OEOC will roll out specific programs at phased intervals beginning in January 2003. The first program will be overnight delivery offered through DHL, the largest international provider of express delivery services. Shortly afterward, the insurance program will be introduced. This program is offered through Summit Global Partners, one of the nation’s top insurance brokers. Typically, MainStreet’s members have realized 10-25% savings on their total insurance bill. Subsequently, programs will be rolled out for equipment and vehicle leasing, IBM computer purchasing, credit card processing, payroll processing and Human Resources outsourcing. Ultimately, all 24 of MainStreet’s programs will be available to Network members.

We at the OEOC are excited about being able to offer this new program for Network members. Adding this group purchasing program to our frequent training programs and CEO/CFO dinners makes Network membership more valuable. Anyone interested in learning more about Network membership or about the MainStreet Group Purchasing Cooperative should contact Karen Thomas (kthomas@kent.edu) or Bill McIntyre (bmcinty2@kent.edu) of the OEOC at 330-672-3028.

Join the Network to get the benefits!

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**Focus on Cooperatives/Ohio’s Employee-Owned Network**
Dimco-Gray Employee-Owner Retires with 6-Figure Account

After 16 years in its ESOP and 22 years with the company, Harold McCarty (center) retired in October 2002 as IS Manager at Dimco-Gray, a 100% ESOP-owned company located in Centreville, OH. Joining those honoring Harold at his retirement party were Vince Ferraro, Materials Manager and Director of Patton Screw Products, Harold’s wife Katie, and Dollie Mabe, HR Manager. Harold’s six-figure ESOP Account should provide him with a comfortable retirement. Harold has been an ESOP participant since its inception in 1986. Dimco-Gray manufactures injection and compression molded plastics, timers and knobs.

A Salute to Roger Elder, Local Leader in Labor-Management Cooperation and ESOPs

Roger Elder, a long-term supporter of employee ownership and a committed leader in the field of labor-management cooperation, is retiring from his long and successful career at Republic Storage Systems Company, Inc. in Canton and looking for new opportunities in employee ownership and human resources management. Republic Storage is one of Ohio’s largest and oldest 100% employee-owned firms.

Elder helped launch the employee buyout at the firm in 1986 and served as union president of USWA local #2345 for several terms, as a Director on Republic’s Board of Directors for nine years, and most recently as the firm’s Human Resources Manager. Elder supported ESOPs locally and nationally as a member of the Board of the USWA’s Worker Ownership Institute and the Stark County Labor-Management Cooperation Program. He is a frequent speaker at conferences and seminars.

Elder hopes to continue his work with employee ownership, human resources, and participatory labor/management systems and wants to offer his expertise in labor relations, contract negotiations, labor law, and workers’ compensation. You may contact him at 410 West Gorgas St., Louisville, OH 44641. We salute your support of ESOPs and employee ownership, Roger, and wish you the very best in all your future endeavors.

1000 Zandex Employees Get Majority Ownership

Zandex, Inc.’s ESOP has moved from a minority ownership position to majority ownership of the firm. In September 2002, Dr. David Murray sold his shares to the ESOP. The transaction increased the ESOP’s percent ownership of the company’s stock from 25% to 51%. The ESOP has owned 25% since its founding in 1986.

Comerica Bank in Detroit, MI, loaned the money to the Company to finance the transaction. The loan is payable in seven years. The mirror loan from the Company to the ESOP has the same terms.

Lyle Clark, CFO, expressed his pleasure at the completion of the transaction. “We are excited about the purchase of Dr. Murray’s stock. We are pleased that he had confidence in the ESOP ownership process to sell his shares to the ESOP. This gives the ESOP majority ownership of the company, and that is a milestone for our Company, our ESOP and our employee-owners.”

When asked if the majority ownership by the ESOP would change the culture at Zandex, Clark replied, “We already had a participative culture; however, I’ve noticed differences. A maintenance employee commented, ‘When I clean the bathroom, I feel like I’m cleaning my own bathroom.’ We have also paid a couple of dividends to the participants, and that has helped with the ownership culture.”

Zandex operates seven nursing homes in Johnston, New Concord, St. Clairsville, Shady Side and Zanesville, OH, and its headquarters are in Zanesville. The company employs about 1,000 employee-owners. It practices open book management as financial results are shared with employees. As before, its external ESOP Trustee casts the ESOP’s vote in the stockholders’ meeting.

The Company has an ESOP Committee of eight people, one person elected from each location. The Committee is responsible for everything related to the ESOP, including administration and communication. To communicate the fact that the ESOP now owns a majority of Zandex’s stock, the Committee held an “ice cream social” at each location.

Looking to the future for Zandex’s ESOP, Clark stated that the long-term objective of the company was to become 100% ESOP at some point, but that may be well into the future. “While becoming 100% ESOP would be nice,” Clark concluded, “we’re happy with the 51% we own right now and will concentrate on making the company and the ESOP a success at that level of ownership.”
Ohio’s Employee-Owned Network

2003 Upcoming Events

ESOP Retreat for Middle Managers
Thursday and Friday, February 6 and 7
Hilton Akron/Fairlawn
What should every middle manager in an employee-owned company know about ESOPs? This retreat is designed to help you convey the principles of ESOPs and employee involvement and explore a variety of technical, leadership, and communication issues in ESOPs to help you manage more effectively.

CEOs and CFOs Networking Series
Join peers at this series of get-togethers hosted by Riley Lochridge and Steve Owen of ComDoc, Inc. to stimulate inter-company relations among ESOP firms

CEO Networking Dinner
Hudson Country Club, Hudson
Thursday, March 6

CFO Networking Dinner
Silver Lake Country Club, Cuyahoga Falls
Wednesday, March 12

CEO and CFO Networking Dinner
Tuesday, September 16
Firestone Country Club
Akron

17th Annual Ohio Employee Ownership Conference
Employee Ownership: Renewing the Vision

Pre-Conference Events
Thursday, April 10
HR/ESOP Communication Roundtable
ESOPs 101
CEO Roundtable
Company Showcase Reception

Ohio Employee Ownership Conference
Friday, April 11
Akron/Fairlawn

ESOP Communication Committee Workshops

Develop an Effective Communication Program
Wednesday, February 19, Kent
Wednesday, February 26, Dayton

ABCs of ESOPs and Employee Orientation
Wednesday, September 10, Dayton
Wednesday, September 24, Kent

ESOP Committee Skills for Effective Meetings
Thursday, October 16, Dayton
Thursday, October 23, Kent

Improving your Business Literacy
Thursday, November 6, Kent
Thursday, November 13, Dayton

ESOP Fiduciary and Administration Programs

ESOP Fiduciary Workshop
Wednesday, May 21, Dayton
Wednesday, December 4, Kent
A session for trustees, ESOP administration committees, and Directors.

ESOP Administration Forum: Preparing for Transitions
Thursday, May 22, Dayton
Planning ahead for majority ESOP ownership, sub-S, diversification, repurchase obligation, etc.

ESOP Administration Forum: An Update
Thursday, December 4, Kent
An update on relevant tax, legal, and fiduciary concerns.

For more information or to register for Network programs, contact Karen Thomas at 330-672-3028 or oeoc@kent.edu

Ohio’s Employee-Owned Network’s Mission is to provide a forum for those working at all levels in employee-owned businesses to learn from each other how to make employee ownership work more effectively at their firms; to organize networking opportunities, roundtables, and training sessions which address the unique challenges of ESOPs.
L egees from around the world met in Washington DC last fall for serious discussion about the global possibilities for broadened employee and community ownership. The conference was organized by the Capital Ownership Group (COG), a Ford Foundation project operating out of the Ohio Employee Ownership Center at Kent State University and chaired by Deborah Olson. COG is a non-profit on-line network of over 600 economic development practitioners, business, government and labor leaders, academics, and activists on six continents. The group focuses on broadening ownership to deal with the negative effects of globalization. Its 15 working groups converse through a “virtual think tank and conference center” at the site http://cog.kent.edu.


The Conference proved to be exceptionally timely, coming on the heels of anti-globalization demonstrations at IMF and World Bank meetings in Washington and shortly after the Enron, WorldCom and accounting firm scandals that demonstrate the need for more corporate accountability.

**Capitol Hill Kickoff**

The Conference, with 122 participants from 16 countries on six continents, started bright and early on Wednesday morning, October 9, in Room 902 of the Hart Senate Office Building. Kicking off on the Hill gave Members of Congress and especially legislative staff the opportunity to meet COG participants and learn about the group’s goals. The opening session briefly covered several topics related to broadening ownership. William Greider, renowned author of *One World: Ready or Not*, and Mark Levin, head of the International Labour Organization’s Cooperative Branch, talked about “Who Wins and Loses as Global Corporations Acquire More Concentrated Control Over Wealth and Decision-Making?”

The benefits of ownership, including company performance, job creation and retention, community reinvestment, asset building and improved health and education were covered by Margaret Blair, University of Georgetown; Adrian Celaya, Mondragon Cooperative Corporation; and David Erdal, Baxi Partnership. New Capital Strategies from the union standpoint was presented by Jim English of the United Steelworkers and Keith Romig of PACE International Union. The business and employee view was provided by Regis Canny of Science Applications International Corporation (SAIC), one of the largest U. S. employee-owned companies.

Two members of the U.S. House of Representatives spoke at the opening session. Representative Carolyn Cheeks Kilpatrick of Michigan spoke on the prospects for a quid pro quo when government bails out private companies. Congressman Dana Rohrabacher of California discussed his bill, the Employee Ownership Act of 2001, which he intends to reintroduce in the new session. Representative Dennis Kucinich of Ohio was unable to be present, but sent supportive remarks.

**Conference Workshops**

At lunch, Bill Greider gave the keynote address, *How Can We Humanize Globalization?*, which will be featured in the next issue of Owners At Work.

Greider’s argument is that the global system is headed toward crisis unless it changes. He sees the COG Conference as laying important groundwork for facing the crisis, and he sees broadened ownership as a crucial element for developing a new approach to capitalism. Greider said, “This idea that workers should have a piece of participation and influence and voice, whether it was through stock shares or cooperatives, or however you manage it, is really the road not taken by history. And I think our challenge, literally, is to revitalize it, to popularize it, and to make it real again for people.”

Fifteen workshops organized around five major topics met Wednesday afternoon and all day Thursday. The first round of workshops focused on Successful Employee Ownership. The panel Think Globally, Act Locally, looked at successful employee-owned companies and supportive local policies and featured Adrian Celaya, Mondragon; William Schweke, Corporation for Enterprise Development; and John Logue, Ohio Employee Ownership Center. Carla
Labor’s Use of Employee Ownership was discussed by Keith Romig, PACE International Union; Vic Thorpe, Just Solutions; and David Wheatcroft, Job Ownership Ltd. The panel was moderated by Lynn Williams, retired President of the United Steelworkers.

The third panel in this group looked at Social Investment Models and Socially Responsible Businesses that Work for Investors and Entrepreneurs. Moderated by Mary Landry, Maryland Labor Education Association, the panel included Ray Carey, Carey Center for Democratic Capitalism; Todd Larsen, COOP America; and Alya Kayal, Calvert Asset Management company.

The first day concluded with a reception.

On Thursday, the first session of panels was on Building Economic Muscle—Companies. Race Mathews, Monash University in Australia moderated a panel on How Modern Cooperatives Succeed in Global Competition. Panel discussants were Paul Hazen, National Cooperative Business Association; Chris Mackin, Ownership Associates; and Mark Sweet, Equal Exchange.

Employee Ownership in Developing Countries, moderated by Ravi Naidoo, South Africa, included Juan Guillermo Espinosa, Chile; Gongyung Situ, China; and Maria Adela Oliveros, Mexico.

Community-Based Asset Lending and Ownership Mechanisms was discussed by David John, Heritage Foundation, and Heather McCalloch, PolicyLink, on a panel moderated by Jessica Gordon-Nembhard of the University of Maryland Democracy Collaborative.

The second session on Thursday morning focused on Building Economic Muscle—Policy. The panel on Corporate Accountability and Corporate Bailouts featured presentations by David Johanson, Johanson Berenson, LLP, and Michael Keeling, President of The ESOP Association. The panel was moderated by Deborah Groban Olson, Capital Ownership Group.

Also in this track was a look at International Agencies and Central Bank Roles in Broadening Capital Ownership. Taking on this topic were Tony Avirgan, Economic Policy Institute; Norman Bailey, Potomac Foundation, and Shann Turnbull, Australian Employee Ownership Association. The panel was moderated by Karen May, Ariza Ownership Ventures.

The subject of Redefining the Corporation was tackled by David Ellerman, World Bank, and Norm Kurland, Center for Economic and Social Justice, on a panel moderated by Vic Thorpe, Just Solutions.


The last set of workshops was focused on Protecting the Citizen Franchise, Opportunity and the Environment. A panel moderated by William Scheweke, Corporation for Enterprise Development and featuring Ray Bosshara, New America Foundation, and Greg LeRoy, Good Jobs First, examined the Threat To and Response From Local Government.

A panel on Stakeholder Control Models, Methods and Experiences was moderated by Keith Wilde, Canadian Pension

Dickstein, Coastal Enterprises, was the moderator.

Successful National and Transnational Employee Ownership Practices was the topic for panel members Regis Canny, SAIC; Matthew Lea, National Center for Employee Ownership (NCEO); Marc Mathieu, European Federation of Employee ShareOwnership; and Erik Poutsma, University of Nijmegen Business School. The panel was moderated by Jacquelyn Yates, Kent State University.

The third panel was on the question Does Privatization Ever Work for Workers? Moderated by Dan Bell, OEOC, the panel included David Binns, The Beyster Institute; David Ellerman, World Bank; and David Wheatcroft, Job Ownership Ltd.

The second set of concurrent workshops examined Capital Strategies for Labor. Participants attending the workshop on Labor Venture Funds and Pension Investment Strategies heard from Tom Croft, Steel Valley Authority and Heartland Labor Capital Network; Per Ahlstrom, Framtid i Norr; and Michael Garland, AFL-CIO, on innovative approaches to employee control of pension fund investments.

(Continued on page 14)
COG Goes to Washington (Continued from page 13)

System. Panel members were David Erdal, Baxi Partnership; Race Mathews, Monash University; and Shann Turnbull, Australian Employee Ownership Association.

The panel on Trade Reform and Collective Bargaining Approaches to Tame Globalization was moderated by Steve Clem, Ohio Employee Ownership Center, and featured Lynn Williams, retired President of the United Steelworkers and Rob Scott, Economic Policy Institute.

1042 Rollover (Continued from page 8)

§1042 election.

Fifth, the current owner and the steering committee (or Board) of the cooperative negotiate the terms on which the cooperative will purchase some or all of the owner’s stock. If the initial purchase is only part of the stock, the agreement should include a plan to acquire the balance of the stock over time (“Stock Redemption Agreement”). The agreement should also include adequate warranties from the seller on the key information about the business’s finances and liabilities and a plan to finance the purchase price prudently.

Sixth, there should be an offering statement which discloses to the owner and prospective employee-members of the cooperative the risks involved, the securities and tax law issues, the description of the company’s business plan and financing, how the company will be reorganized into a worker cooperative (including attachment of Articles and Bylaws), and description of share purchase and redemption obligations of the company under the Stock Redemption Agreement. It should note clearly that the cooperative will repay its buyout financing out of future net income of the business. This will depress its cash flow and most likely force it to allocate and distribute some or all of its net margins to employee members in the form of equity interests in the cooperative, rather than as a cash payment, until the financing has been repaid. The purpose of the Offering Statement is to make as fair a disclosure of the risks and obligations of participation in the transaction as possible.

Last and not least, it is necessary to balance the interests of the selling owner as a shareholder (until all of the owner’s original shares are redeemed) against the interests of the employee-members. This would include providing the owner certain voting rights, veto powers, and rights to participate on the Board and in management of the company, while providing majority control to the employee-members. These provisions would also describe what, if any, profits of the company would be distributed to the owner with respect to his remaining investment in the company.

Obtaining the tax advantages for the owner

To obtain the benefit of §1042 for the selling owner, the worker cooperative must make an initial purchase of at least 30 percent of the stock of a C corporation. (If the business is now being taxed as an S corporation, the owner will need to terminate the S election in favor of a C corporation election in order to obtain the §1042 tax advantages, with possibly adverse income tax consequences that this may occasion.) The cooperative will need to agree to be subject to IRS excise taxes if the acquired stock is resold by the worker cooperative within 3 years, or if purchased shares are allocated to the seller or the seller’s immediate family. After the buyout is completed, the selling owner will file a properly documented §1042 election form with the IRS. The seller will also need to invest the proceeds in “qualified replacement property” no later than 12 months after the closing date.

Looking forward

The worker cooperative’s plan of operation should take into consideration the interests of employees who are hired after the buyout. Membership, patronage refunds, equity redemption at retirement and the benefits of the buyout should be available to all future member-employees. But new employees should also be required to furnish their fair share of the worker cooperative’s equity through personal investment in the worker cooperative in order to obtain these benefits.

Worker cooperatives can be an attractive alternative to ESOPs in the proper circumstances. The financial challenge of financing the stock acquisition and redeeming each employee’s ownership interest in the business are about the same for an ESOP and a worker cooperative. An ESOP is more expensive to form and administer, and is typically subject to more restrictive government regulation, but a worker cooperative is more of a challenge to the corporate culture of the business. The democratic control and employee self-determination inherent in a worker cooperative bring with them corresponding messiness of democracy and the shared burden of investment and management of the business by all of the employee members. This will require a more informed understanding of the economics of the business and the risks and responsibilities that each employee has as an owner.

A more extensive version of this article which includes a further description of how to do a §1042 cooperative transaction and the documents required may be requested in hard copy for $5 from the OEOC (309 Franklin Hall, Kent State University, Kent, OH 44242) or accessed directly without charge on the OEOC website at http://dept.kent.edu/oeoc/oeoclibrary/Coop1042Rollover.htm. The legal research on this project was funded by the George and Gladys Dunlap Cooperative Leadership program of the Nationwide Foundation.

Eric Britton and Mark Stewart are attorneys at Shumaker, Loop & Kendrick, LLP, in Toledo. Britton has a well-established ESOP practice and Stewart is Ohio’s leading expert on cooperative law.
Globalization, Decent Work and Ownership: The ILO Perspective

Mark Levin

Mark Levin, Director of the International Labor Organization Cooperative Branch in Geneva, Switzerland, addressed the Capital Ownership Group Conference, October 9, 2001, in Washington, D.C.

Thank you for inviting me to address this important assembly and to deliver greetings from the International Labour Organization’s Director-General, Juan Somavia.

My topic is “Globalization, Decent Work and Ownership: The ILO Perspective.” The ILO is an agency of the United Nations that promotes social justice and human and labour rights among its 176 member States. It reaches decisions based on discussion and negotiation between government, employer and worker representatives, and the breadth of opinion expressed within the ILO is a valuable asset.

The Social Dimension of Globalization

Clearly, globalization has brought opportunities, prosperity and development for some. However, we should be cognizant of some unpleasant facts. The ILO estimates that over a billion people are unemployed, underemployed or among the working poor. Some 120 million migrant workers have left their homes in search of a job elsewhere. The informal economy absorbs 6 of every 10 new jobs created globally, mostly in low-income, self-employed service sector occupations. Everywhere the cost of occupational injuries and illnesses is heavy. Trade union rights are violated in many countries, and more than 120 million children between 5-14 work full time in developing economies.

Is globalization to blame for all this? Clearly not, but to quote the ILO Director-General “the present form of globalization is exacerbating rather than bridging social divisions within and between countries.” Many people believe globalization has raised insecurity, eroded rights and heightened fears of exclusion and vulnerability.

To help ensure that globalization works for all, the ILO established a World Commission on the Social Dimension of Globalization, to consider how to make globalization a process that promotes development and addresses issues such as work and unemployment, poverty and deprivation, economic development and social justice. The Commission is to report in 2003.

Globalization and Decent Work

Against the challenges posed by globalization, the ILO developed the concept of Decent Work for women and men. Decent Work implies access to employment in conditions of freedom, the absence of discrimination or harassment, a sufficient income to satisfy basic economic, social and family needs and responsibilities, an adequate level of social protection for the worker and family members, and the exercise of voice and participation at work, directly or indirectly through self-chosen representative organizations.

The Decent Work agenda is behind the Director-General’s “common sense approaches that can make globalization more equitable”.

- Create opportunities for decent work and income in rural areas and large cities through enabling investment and skills development, particularly for self-employment and for micro, small and medium enterprises.
- Move away from the “casino” economy, fuelled by speculative financial markets, toward a real economy based on savings, investment and creativity that generate solid companies and quality jobs.
- Promote social entrepreneurship and socially responsible investment funds. Put limitations on the linkage between pension funds and stock markets. Protect the value of savings.
- De-link economic growth from environmental degradation with investment for sustainable development using new environment-friendly technologies.
- Invest in information technologies and enable poor countries to access these through cooperation.
- Place policy options on a sound footing by promoting dialogue among workers, employers and representative voices of society.
- Inject fairness and accountability into the international trading and financial systems.

Globalization, Decent Work and Ownership

What has all this got to do with ownership? Everything.

- Workers’ ownership saves jobs by preventing enterprise closure
- Workers’ ownership motivates people to be more productive
- Companies with substantial workers’ ownership outperform those without it
- Workers’ ownership enables people to participate
- Participation contributes to creating healthier communities
- Broadened ownership can mitigate some negative effects of

(Continued on page 16)
globalization by anchoring ownership of productive assets at the community level.

That is why the ILO cooperative technical service, established in 1920, has been engaged with cooperatives, at the more inclusive end of the workers’ ownership discussion. They are tools for improving people’s living and working conditions. Since they are owned by the users of the services they provide, their decisions can balance the need for profitability with the welfare of their members and the community. Successfull cooperatives increase the bargaining power of their members through higher income and social protection, leading to opportunity, protection and empowerment — essential elements in uplifting people from degradation and poverty.

The very principles on which cooperatives are based — self-help, self-responsibility, democracy, equality, equity, solidarity, social responsibility and caring for others — fit with the notion of Decent Work.

At last June’s International Labour Conference in Geneva, the ILO adopted a new international labour standard on the Promotion of Cooperatives - Recommendation No. 193. A Recommendation is not binding on members, but Recommendations do tend to find their way into the laws and policies of many member States. Main features of Recommendation No. 193 are:

- Recognition of the global importance of cooperatives in economic and social development (cooperatives are the largest non-governmental movement on the planet with nearly 800 million individual members)
- Reaffirmation of the cooperative identity based on values and principles
- Equal treatment for cooperatives vis-à-vis other types of enterprise
- Definition of the government’s role in creating a supportive policy and legal framework, and in facilitating access to support services and finance
- An active role for employers’, workers’ and cooperative organizations
- Encouragement of international cooperation

Recommendation No. 193 will serve as a useful tool to respond to the world’s economic and social problems and promote Decent Work through cooperatives.

That’s the good news; what about the bad news?

Unfortunately, there’s a lot of bad news. The employee ownership agenda has little impact on the major global development frameworks promoted by the UN, the Bretton Woods institutions and the major donor countries. I believe, however, we are seeing a pendulum swing as the failures and excesses of market-driven “solutions” become apparent. The ILO Recommendation is serving to renew interest in cooperatives.

Quoting from Vic Thorpe’s conference paper: “The subject is not really on the radar-scopes of either the government institutions or the campaigners for a new approach to world development and distribution, although it has a great deal to offer.” If the benefits of broad ownership are so obvious to us, why don’t others realize the truth?

One reason is that developing economies have a very small industrial base and a very large informal economy. ESOPs and other types of employee ownership schemes have difficulty in getting their message across.

I can’t quite explain the low profile of democratic ownership in debates on globalization and development. There are those who regard cooperatives, majority employee ownership and participation as totally “inappropriate” in the new world economic order. I would, however, argue the opposite - the growing crisis of unequal globalization, or what Ravi Naidoo has called “neo-liberal globalization” gives ownership a tremendous opportunity because it provides alternatives. The growing disquiet surrounding the negative aspects of globalization may provide the platform for an “ownership offensive”.

The ILO is, in many ways, the “natural home” of employee ownership in the multilateral system. However, apart from our cooperative program, the ILO has no ongoing work in the field of employee ownership.

But remember that the ILO is a tripartite organization that workers’ organizations are interested, the International Labour Office will respond. The social partners may have reservations about employee ownership, but they have enough interest to warrant a campaign to encourage them further.

Where do we go from here? I believe it is realistic and feasible to show why ownership is an “old-new idea” whose time has come. Engagement in the debate on globalization will pay off, not only for countries and communities unfamiliar with the principles and practices of ownership, but also for those already involved.

This conference is therefore very timely indeed and I am extremely happy to be able to explore the way forward together with you. Thank you.

The very principles on which cooperatives are based — self-help, self-responsibility, democracy, equality, equity, solidarity, social responsibility and caring for others — fit with the notion of Decent Work

German Marshall Fund Supports Dialogue

A pre-conference working group of 27 delegates from the U.S. and six European countries found that interest in employee ownership and employee shareholding continues to grow on both sides of the Atlantic, even though law and policy on employee ownership varies enormously among countries. The meeting was hosted by the National Cooperative Business Association at their Washington headquarters and funded by The German Marshall Fund of the U.S., a German-funded American institution that stimulates the exchange of ideas and promotes cooperation between the United States and Europe in the spirit of the postwar Marshall Plan.
17th Annual Ohio Employee Ownership Conference
“Renewing the Vision”
April 11
Akron/Fairlawn Hilton
Akron, OH

We in the employee ownership movement know that ESOPs and Co-ops save jobs and companies, anchor capital, and grow local economies. ESOPs and employee ownership have been taking an unfair beating in the media over the last two years because of bad examples like United Airlines and Enron.

Spring is the season of renewal and a perfect time to attend the 17th annual Ohio Employee Ownership Conference.

Find out why ESOPs are still a great idea for Ohio’s privately-held companies and why employee ownership is still improving the lives of employee-owners in Ohio and beyond.

Panel topics include: ESOP technical and administration issues, teamwork and participation skills, financial training, ownership culture, co-ops, and more.

For more information or to register, contact the OEOC at 330-672-3028 or at oeoc@kent.edu

Business Owner Succession Planning Program

The Ohio Employee Ownership Center (OEOC) has been teaming up with the Greater Cleveland Growth Association’s Council of Smaller Enterprises (COSE) and the Cleveland Advanced Manufacturing Program (CAMP, Inc.) since 1996 to provide a comprehensive series of succession planning seminars to area business owners. The Succession Planning Program helps business owners plan for succession by exploring a wide range of options.

Participants receive An Owner’s Guide to Business Succession Planning. This manual presents clear and concise step-by-step succession planning techniques. A directory of local service providers, worksheets, selected readings and presenter packets will also be provided. Owners have the opportunity to ask technical questions and interact with other business owners.

This program aims to retain jobs that would otherwise be lost from failure to plan for succession. Each seminar runs from 8:00 a.m. - 10:00 a.m. at CAMP, located at 4600 Prospect Avenue in Cleveland. Registration for each seminar is limited to the first 40 business owners who sign up.

Program cost is $40 (COSE members $30) per seminar or all six for $125 (COSE members $100). Parking is free and breakfast will be provided. Directions will be faxed prior to each seminar.

To register or for more information, please contact:
Chris Cooper at 330-672-3028 OR ccooper1@kent.edu

Spring 2003 Schedule of Seminars

<table>
<thead>
<tr>
<th>Date</th>
<th>Seminar Details</th>
<th>Presenter(s)</th>
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<tbody>
<tr>
<td>March 6</td>
<td>Introduction to the Succession Planning Process</td>
<td>Anthony J. Sejba—Barnes Wendling</td>
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<td>March 20</td>
<td>How Much is My Company Worth? The ABC’s of Valuation</td>
<td>David Howell &amp; Jeffrey Liebel—Valuemetrics</td>
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<td>April 3</td>
<td>Uses of Insurance in Succession Planning</td>
<td>Joseph Godfrey—CPAmerican</td>
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<td>April 17</td>
<td>Essential Legal Issues and Tax Strategies in Selling Your Company</td>
<td>Carl Grassi—McDonald Hopkins Burke &amp; Haber</td>
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<td>May 1</td>
<td>Employee Stock Ownership Plans (ESOPs)</td>
<td>Mike Blasko—Huntington Bank</td>
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<tr>
<td>May 15</td>
<td>Government Loan Programs for the Small Business Owner</td>
<td>Gerry Meyer—Growth Capital Corporation</td>
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Turnover, Absenteeism and Participation

Joseph Doggett

A recent survey of 67 Ohio ESOP companies reveals that firms with participatory management practices report strikingly reduced turnover and less absenteeism. Most employee-owned firms that promote employee participation have absenteeism and turnover rates of less than 5 percent. ESOP firms that do nothing or are actively hostile to employee participation have absenteeism and turnover rates that are higher -- some greater than 20%. The apparent impact of employee training and involvement is greater on turnover than on absenteeism.

For the study, human resource managers were surveyed for their company’s practices of sharing information, providing training and offering opportunities for employee involvement. They were also queried about how much their company valued employee participation, employee development, and training. And they were asked to assess the impact on company performance. Open-ended questions solicited their views on what their company considered to be the most important HR challenges and the most important business issues for their company.

81% of firms that provide financial and financial training reported turnover of less than 10%, compared to 61% of firms that did not provide it. 17% of firms that did not provide financial info and training reported turnover in excess of 17%, compared to just 5% of firms that provided it. Sixty percent of ESOP firms that provided financial information and training reported an annual absenteeism rate of 5% or less, as compared to 49% of firms that did not provide it.

Interestingly, firms with higher absenteeism and turnover reported higher use of short-term financial incentives, like an attendance bonus. The anomalous pattern suggests that excessive absenteeism and turnover are what inspires management to offer incentives, rather than incentives being effective methods to reduce absenteeism and turnover.

In an ideal world, a participatory employee firm would be based on principles like these:

- There is an open and free flow of communication.
- The company offers training to develop involvement.
- The firm makes continual efforts at creating a positive, participatory culture with employee involvement in decision-making.
- Employees in the firm work together, and they have top-down commitment for their efforts.
- The work place is devoid of factions and cliques.
- If the firm offers something as an inducement, it fulfills its obligation, so there is no discrepancy between what is offered and what is given.
- The firm’s leadership mentors employees by taking an interest in them and giving them training, sharing information, and providing mechanisms to participate.
- There is a balance between participation and actual work. Constantly having meetings on participation detracts from true participation.

These eight guiding points remind us that management is a subtle art, and sometimes just knowing how many types of training, or how many meetings management holds with employees doesn’t reveal the reality of the firm’s culture. For example, managers may say that employee input is valued, but provide few opportunities for employees to actually get involved. Whether intentional or not, a situation like this is probably more harmful to attitudes than a management that simply does not share control.

A few of these problems are captured in four categories of management style – draconian, undermining, non-participatory and participatory.

The five draconian management did not provide information, training or employee involvement and held strongly negative images of their employees as irresponsible, undisciplined and poorly trained and skilled, as evidenced by remarks on the free response section of the survey. Employees were not seen as making valuable contributions to the firm, but rather as incapable of work. What is more, the company provided no programs to help with changing the situation. Fourteen undermining managers stated that they valued employee involvement and participation, but in fact provided few or no opportunities at all for it. In one case, a respondent expressed a concern with preventing employees from getting the impression they could really have much control over decision-making. Twenty-six non-participatory firms did not offer training or opportunities for participation, but HR managers did not make strongly negative statements about employees’ characteristics and skills. And finally, nine participatory firms valued employee involvement and provided for employee information, training and participation. Eighteen firms from the sample could not be classified either because of lack of information or because they did not fit any of the models above.

As the bar graph above reveals, participatory firms had markedly lower rates of absenteeism and turnover than did the other firms. Most participatory firms have absenteeism and turnover rates between 0 and 5 percent, whereas the types of
firms that fail to promote employee participation have much higher rates. Even the approach toward nonparticipation seems to make a difference: the Draconian and nonparticipatory firms had the worst absenteeism, while firms with the underminer culture did slightly better on both absenteeism and turnover, hinting that even giving lip service to involvement can have a positive impact.

Why does participation matter? The respondents to the surveys make the distinction clear. From an underminer firm, a respondent wrote on the open-ended questions, “What is the greatest HR challenge your company faces?”: “How we balance employee ownership and employee participation without giving the wrong impression to employees about the amount of control employees have on day to day operations.” In contrast, a respondent from a participatory firm wrote “Getting employees to think and feel like owners and to find effective means for employee owners to participate in improving company performance.”

The graph also reveals that despite the potential advantages, most employee-owned companies do not fully utilize the techniques of communication, training and participation that would encourage employee interest and turn it to benefit performance.

Editor’s note: Joseph Doggett is a former staff member at the Ohio Employee Ownership Center. The data reported below were collected for his recently completed M.A. thesis. A longer version of this article is posted in the library at http://cog.kent.edu.

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If you appreciate the insight and information of Owners At Work, we would ask that you consider making a **tax-deductible** donation to the “Friends of the Center” campaign. This will help us to continue to spread the good news of ESOPs and employee ownership to the ESOP community, the country, and beyond.

And, as a token of our appreciation, all donations of $100 or more will receive a complimentary copy of The Real World of Employee Ownership (see info below).

It remains the Ohio Employee Ownership Center's Mission "To promote employee ownership in order to broaden capital ownership, deepen employee participation, retain jobs locally, and increase living standards for working families and their communities."

Your **tax-deductible** donation will go a long way in ensuring that the Center lives up to our mission, and continues to provide quality services to our communities today and into the future.

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**Publications From the OEOC**

**THE REAL WORLD OF EMPLOYEE OWNERSHIP**

John Logue; Jacquelyn Yates; William Greider (Foreword)

How does employee ownership **really work?** This detailed study of 167 Ohio ESOP companies provides an in-depth analysis of what ESOP companies do, of what works and what does not, and what it costs. The study focuses on variables that set some employee-owned companies apart: employee participation in decision making and corporate governance, open business communications, and training to use the participation system and understand business information. They conclude with an analysis of Federal and state employee ownership policy and recommendations for improving both. 256 pp. Cornell University Press ISBN 0-8014-8394-8 (paper) $17.95, ISBN 0-8014-3349-5 (cloth) $45.00.

“John Logue and Jacquelyn Yates have combined scholarly precision with real-world involvement to produce a clearheaded, practical examination of what makes employee ownership work—and not work. This is an invaluable guide for both students and practitioners.”

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**PARTICIPATORY EMPLOYEE OWNERSHIP: HOW IT WORKS; Best Practices in Employee Ownership**

John Logue, Richard Glass, Wendy Patton, Alex Teodosio, and Karen Thomas

At last a best practices manual for establishing and growing participatory employee-owned companies! Written for the Steelworkers’ Worker Ownership Institute, this volume covers everything from participatory buyouts through mature ESOPs, including plan design, governance, participation structures, communications, training and much more. 192 pp. ISBN 0-933522-23-1 (hardback) $24.95; ISBN 0-933522-24-X (paperback) $14.95.

Available from better booksellers or call the OEOC at 330-672-3028 to order

Most of the readers of this newsletter probably believe that employee ownership is a worthwhile goal for its general economic benefits and its implicit recognition of the humanity and dignity of everyone who works. But most readers who like employee ownership probably also believe that the goal should be to spread ownership within the present framework. Marjorie Kelly, editor of Business Ethics, will take you further than that. Much, much further.

In The Divine Right of Capital, Ms. Kelly takes on the very nature of share ownership, the purpose of corporations, the relationship between corporations and government, the fiduciary duty of boards of directors, and the power of wealth. She proposes a radical alternative to present arrangements. If you have been longing for something that would go beyond the slow gains that employee-owners are making through buyouts and progressive management, this is the book for you.

Ms. Kelly is highly critical of the rights and powers of shareholders. She likens them to a feudal aristocracy in that they benefit from the profits and capital gains of companies without making a contribution to business success, they govern absolutely through the board, and they can buy and sell companies and their employees’ jobs in the same way that aristocrats could sell their lands and the people who lived there. Most of us are so used to this system that we don’t question it, she writes. But democratic revolutions ended political feudalism and enabled ordinary people to have a say in government. It’s time for a parallel revolution in the economy.

There’s a lot for the revolution to overcome, because shareholder primacy is enshrined in law, at the heart of fiduciary duty. And corporations are legal persons with indefinite existence. Ms. Kelly would put an end to all that. Law that places shareholders in an exalted position can be changed, she points out, arguing that most of the important law is case-based rather than statutory.

Ms. Kelly asks, why should shareholders alone claim the profits of the corporation? Employees have a good claim because they make the company work. Why shouldn’t investor capital simply earn a wage, a fair rate of return? Ms. Kelly advocates changes in law to reflect the claims of all stakeholders, including investors, employees and community, as well as others.

Raising her eyes from the aristocracy of the shareholders, Ms. Kelly takes aim on the social structure. Fundamentally, it’s a problem of wealth privilege, argues Ms. Kelly. The wealthy may not be able to directly control everything in the political system any more, she argues, but public policy enables the wealthy to keep control of most assets, and through their control of assets, most people. Except for a short period from the Depression through the 1960’s, argues Ms. Kelly, the rich have been able to dominate the U.S. economic and political system, legally seizing the products of other people’s work, and keeping many in poverty.

Ms. Kelly asks, What do the wealthy contribute? Her answer is that most of them don’t contribute anything to the welfare of the corporation, because the stock they own was bought from another shareholder, not from the company itself. Except for initial public offerings and rare sales of stock from the company treasury, most purchases on the stock market are a form of gambling on what the value of the company will be in the future, and don’t return any benefit to the company. If the stock price goes up, it’s because the company’s employees created value, not the shareholders. However, the shareholders’ interest in profits must be the prime directive of the board, as they alone are entitled to dividends and capital gains, while the employees are viewed as a cost to be minimized.

Many objections can be raised to Ms. Kelly’s ideas. One is the risk that wealthy stockholders will simply exit to another country if they are forced by law to surrender large amounts of profits and control. Another is that over half the stock market is owned by pension funds, though Ms. Kelly argues that the funds hold mostly the money of the wealthy. A third objection is that an enterprise is not the same as a political community – in a political community the cooperation and contribution of all is needed to create internal order, defend against external threats and develop infrastructure. But, most of the time, political communities are not at risk for their very existence, and so can tolerate the loose and sloppy practices of extensive debate, considering many points of view, and allowing for slow change. An enterprise exists in a more hostile environment of competition, where more structured and hierarchical leadership may be needed for survival and success. Even successful, participative employee-owned companies must work very hard to keep participation efficient and manageable.
Has your next Employee Owner Check-Up been scheduled yet?

Every employee owner goes through a life cycle, from the initial orientation to the final distribution; from understanding ESOP basics to mastering the skills to participate effectively under open book management. The Ohio Employee Ownership Center of Kent State University offers an annual Employee Owner Check-Up. We'll help you identify those employees reaching key ESOP milestones in the current year, and systematically provide them with the corresponding information and training.

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For more information on how an independent trustee may contribute to the success of your ESOP, contact John Banasek at (630) 572-5122 or Marilyn Marchetti at (630) 572-5121. Our national toll free number is 1-888-647-GBTC. We are located at 1301 W. 22nd St., Suite 702, Oak Brook, IL 60523.
UPCOMING NETWORK EVENTS – 2003

February 6-7, Akron/Fairlawn
ESOP Retreat for Middle Managers

February 19, Kent
February 26 Dayton
ESOP Communication Committee Workshop:
Developing an Effective Communication Program

March 6, Hudson
CEO Networking Dinner

March 12, Cuyahoga Falls
CFO Networking Dinner

April 10 Akron/Fairlawn
HR/ESOP Communication Roundtable
ESOPs 101
CEO Roundtable
Company Showcase Reception

April 11 Akron/Fairlawn
Ohio Employee Ownership Conference
Employee Ownership: Renewing the Vision

May 21, Dayton
ESOP Fiduciary Workshop

May 22, Dayton
ESOP Administration Forum:
Manage your ESOP and Prepare for Transitions: minority to majority,
sub-S, diversification, ESOP repurchase obligations, etc.

OTHER EVENTS OF INTEREST

Various locations
Introduction to ESOPs and Dates
For more information, log on to http://www.nceo.org/meetings/intro_to_esops.html

March 20, 2003
The ESOP Association Ohio/Kentucky Chapter
Reynoldsburg, OH
ESOP Annual Spring Conference
For more details, contact Carrie Imbrogno 440-989-1552

March 26, 2003
National Center for Employee Ownership
San Francisco, CA
Beyer Institute for Entrepreneurial Employee Ownership
Joint National Conference
For more information, log on to http://www.nceo.org or http://www.fed.org

April 29-May 1, 2003
National Cooperative Business Association
Washington, D.C.
Cooperative Conference
For more information, log on to http://www.ncba.coop

April 30-May 2, 2003
The ESOP Association
Washington, DC
26th Annual ESOP Conference
For more information, log on to http://www.esopassociation.org/

Preliminary Feasibility Grants

The Ohio Employee Ownership Center (OEOC) administers the Ohio Department of Job & Family Services preliminary feasibility grant program. This program is designed to provide financial assistance for groups who are interested in conducting a study to explore employee ownership as a means to avoid a facility shut down. For more information, please contact the OEOC at 330-672-3028 or oeo@kent.edu.

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

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