OWNERS AT WORK

THE NORTHEAST OHIO EMPLOYEE OWNERSHIP CENTER

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The Ohio ESOP Lending Environment

Phone survey indicates that money is available

"We're actively looking to make ESOP loans," stated Kevin McQueen, Vice President of NCB Development Corp. "In the last one-and-one-half years, we've closed about twenty ESOP deals." NCB Development Corp's active position runs contrary to that of many bankers, which, due to the recession and an overextension of resources during the heyday of the leveraged buyout, have curtailed their lending. Despite this, for Ohioans considering a leveraged employee stock ownership plan (ESOP), it seems like a good time to look for financing.

Interest rates are down and Ohio lenders, in general, have been more conservative than many of their counterparts in other states, coming through the the late 1980s in a stronger position. In fact, they are looking for good companies to lend to. "We're actively pursuing new business," said one loan officer. "But we're looking for quality loans."

Although they have money, Ohio lenders are scrutinizing deals much closer than they have in the recent past. Lenders are looking for "good" companies with solid balance sheets, low debt-to-equity ratios, positive cash-flow generation, and a strong collateral position. As one lender commented, "with the change in banking and the economy, banks are looking closely at all deals, not just ESOPs." One loan officer stated that loan demand in general has been weak recently, and ESOP deals are few and far between. "We would like to do ESOP lending, but we haven't seen that much activity. We have an appetite for the tax breaks. We've been consistently profitable."

Loan officers wanting strong companies to lend to is nothing new. What is new, however, is the degree to which bankers seem risk adverse. Many lenders have pulled in the purse strings and are looking for the very best deals they can find. Often, marginal deals, which would have been financed three or four years ago, cannot find an interested loan officer. Moreover, lenders are not actively marketing ESOPs to their customers, as some did in the 1980s. As one lender put it, "there's money available; we're just making sure we're doing good business [before we make the loan]." On one recently approved loan, which created a new majority ESOP, the bank's position was supported by 20 percent in equity, a loan from the State of Ohio, and some subordinated financing.

Lenders are hesitant despite strong indications that leveraged ESOPs are a more likely to succeed than conventional LBOs. According to McQueen, the NCB Development Corp has yet to experience a loss on a ESOP loan. "All borrowers have experienced some downturns [due to the recession]. However, because we're not a conventional lender, we have a little more risk tolerance and flexibility, but we're not a soft lender." NCB's experience with leveraged ESOPs is supported by a National Center for Employee Ownership study which found that only one of twenty-three leveraged ESOP buyouts it tracked had gone into bankruptcy. On the other hand, ten of seventy-two conventional LBOs had entered bankruptcy.

Still, from the lender's perspective, a change of ownership or start-up -- which majority ESOPs are -- is a riskier transaction; lenders want to reassured that they are making a good loan. Hence, the prospective buyers must bring financial and personal commitment to the table. While exploring employee ownership, a buyout group convinces itself that becoming employee owned is the right thing for the company; they needed to convince their lender of the same thing. "Whatever process they've gone through to convince themselves that an ESOP is the right thing to do, they need to do the same thing for the bank. Show us that the deal makes sense; we're your outside partner," stated one loan officer. Lenders were not looking for a sales pitch; they wanted to know why they should lend the money. "There has to be a psychological and practical buy-in to ownership on the company's part," a lender commented. "Don't go fishing at the bank. Examine your own motives before you come in."

Lenders felt that they were establishing a long-term relationship with an ESOP loan; hence the company must have a consistent profit performance and quality management for the loan to be approved. Management, especially of a small, closely held company, was very important in making a loan decision. If the ESOP is a minority owner, lenders are interested in whether there will be a transition in the management team at some point. If the owner is leaving the company, bankers want to know how the company will fill the hole left by the current owner and whether the remaining managers can do the job the departing owner is performing. Loan officers are all wary of changes in midstream on any project.

Loan officers felt that anyone contemplating an ESOP should get their lender involved as early in the transaction as possible. One banker advised clients to "[get the banker involved], so they don't spend too much on consulting fees." For example, clients should ask the lender about a business valuator before the valuation is done. Making sure that the valuator is on the bank's approved list will help ensure that the valuation meets its standards.

City Pride Bakery Opens in Pittsburgh

When the members of Bakery, Confectionary, and Tobacco (BCT) local 12 were faced with the closure of the Pittsburgh-based Braun Bakery, they took action. Despite their efforts, the bakery closed. If this were the story's end, it would be a typical plant-closing tale in the greater Pittsburgh area, which has lost more than 100,000 jobs during the last decade. However, after their plant was closed, the former Braun employees kept working to keep their jobs alive. Their cumulative efforts were rewarded in September with the opening of the new, employee-owned City Pride Bakery.

The struggle to open City Pride was a long, difficult one that lasted more than two-and-one-half years. In the end, it was all worth it. "We conceived it, we believed it, and we achieved it," said City Pride worker owner Pearl Alexander. The new company will provide family-wage jobs to 250 people.

The struggle to save the bakery began when Continental Ralston-Purina, which owned Braun, announced plans to close the Pittsburgh bakery and consolidate operations in Philadelphia. Employees of Braun fought the shutdown with a region-wide boycott, eminent-domain action, and demonstrations. After the workers discovered that the building and 80 percent of the equipment was either outdated or in ill repair, they ceased their efforts to save the facility and turned their energies toward saving their jobs.

Former Braun employees and the Steel Valley Authority began working together to explore the development of an employee-owned enterprise. A prefeasibility study, funded by the state and worker donations, showed some promise: the Pittsburgh market place was the largest metro area in the country without a full-line bakery. Despite these positives, the project almost died during the Winter of 1989. The business plan indicated that the new bakery would be involved in intense price competition and have difficulty garnering a significant market share; City Pride was looking like a half-baked idea. Then, miraculously, nature intervened. Heavy snows stopped bread deliveries into Pittsburgh from New York, New Jersey, and Philadelphia; residents could not find bread for Christmas dinner.

With Winter's snow behind it, the local bakery idea gained momentum, and meetings with Giant Eagle, the area's largest grocer, produced positive results. The grocer was interested in fresh bread at a reasonable cost. With help from local government officials, City Pride received letters of intent for $12 million in sales from Giant Eagle. This helped the company to demonstrate to lenders that it could be a viable business.

When the business plan was completed, the firm went looking for financing. In total, it managed to attracted $8.2 million from conventional lenders, equity investors, the community, foundations, and religious orders. The firm received $2.8 million in senior debt with a $600,000 line of credit, $2.26 million in public/utility loans and grants, $2 million in private equity, $600,000 in community equity, $590,000 for the ESOP loan, and $200,000 in loan guarantees. The unconventional financing structure has resulted in a unique tri-partite ownership structure, which includes private (60 percent), employee (30 percent through an ESOP), and community ownership (10 percent).

The new firm is committed to providing good jobs to the local community and to educating its workers about the company that they own. For example, it will have an educational program to help employee owners develop the skills needed to become more participative. Even though it is still a work in progress, the City Pride Bakery and its employee owners have come a long way in two years.

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THE NORTHEAST OHIO EMPLOYEE OWNERSHIP CENTER

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The Northeast Ohio Employee Ownership Center is a university-based outreach program which offers information and technical assistance to retiring owners, buyout committees, labor unions, managers, and community-development organizations interested in exploring employee ownership. Funded by grants from the Ohio Department of Development's Office of Labor/Management Cooperation and the John D. and Catherine T. MacArthur Foundation and contributions from both Kent State University and the companies that comprise Ohio's Employee-Owned Network, the Center offers timely information and ongoing technical assistance in situations where there is a threat of job loss. Staff can help locate competent legal and financial advice, and will perform pre-feasibility assessments to determine whether employee ownership is a viable option.

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

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Big Things Are Happening at Sharon Manufacturing

A large tree with leaves representing each of many US employee-owned businesses is one of the colorful posters that greets visitors entering the corporate office of Sharon Manufacturing, Inc. Sharon might be the smallest leaf amongst all the firms printed on the poster. But its small size, with 20 employees and $2.5 million in annual sales, is in contrast to the large-scale size of its products and the strength of its accomplishments as a 100 percent ESOP.

"Our customers are surprised to discover how small we are, because of the large jobs we tackle," explains Jerry Kostelny, president of Sharon Manufacturing. Sharon specializes in the fabrication, machining, and assembly of custom orders for the capital-equipment market; most projects could be described as over-sized, close-tolerance work. Typical customers include the steel, rubber, construction, transportation, and defense industries.

As a custom job shop, Sharon routinely takes on very complicated projects. These jobs have included custom-designed, self-propelled, electric-generating locomotive cars for the railway-maintenance industry; weldments of up to thirty-four tons; forty-ton spherical rubber molds; structural steel fabrications for subway systems; and special alloy fabrications. Sharon is one of the few companies left that does hot-rivet construction.

Starting from nothing

Sharon Manufacturing was founded in 1970 as a wholly owned subsidiary of the Ruhlin Construction Company, one of Ohio's largest construction firms. Sharon struggled and was eventually idled. Ruhlin's principal owners, brothers Bill and Jack Ruhlin, asked Kostelny to step in and lead the subsidiary in a new direction. He took over the management of Sharon in 1974.

At that time, the company had no employees, no equipment, and no customers. Kostelny was given free rein to manage it. "I looked at it as a real challenge, an opportunity to manage a company like it was my own," he recalled.

Kostelny used his background as a purchasing agent, expediter, and construction projects manager at Ruhlin to rebuild Sharon Manufacturing. Catering to the market he knew best, Kostelny went out and sold fabrications and large-scale weldments. "We looked for projects that most other companies could not or would not want to do," he recounted, "we looked for the unusual. We developed a market for unique projects." By 1980 the small firm was established in the capital-equipment market.

In 1985, Kostelny received another call from the Ruhlins which was similar to the call he had gotten back in 1974. Over lunch, they announced their plans to sell their majority interest in the Ruhlin Company and retire. At the same time, they voiced their concern about Sharon's future as a Ruhlin subsidiary. They warned Kostelny that the tough times in the construction market might lead Ruhlin's new management to sell Sharon. Sharon was profitable and selling it was a likely source of badly needed capital.

Their first offer was to Kostelny -- would he want to buy the company? He responded that he did not have the financial capital required to complete the transaction. They made another offer to Kostelny -- for no money down, would he want to buy Sharon along with the employees through an ESOP?

Profile: Sharon Manufacturing, Inc.

Products: Custom, close-tolerance fabrications and assembly.

Employment: 20.

Sales range: $2-3 million.

ESOP: 100 percent ESOP, formed in 1986 to purchase the company when the owners of the parent corporation decided to retire.

Kostelny took six months to give them his answer. In the meantime, he attended seminars and learned everything he could about ESOPs. After careful thought, Kostelny decided to take on the challenge of employee ownership. He called a meeting of all the employees and gave them a crash course on ESOPs. "I explained to them in a matter of minutes what I'd studied for six months," Kostelny recalled. He asked for a vote, by secret ballot, on establishment of an ESOP. The vote was a unanimous yes.

Kostelny recalls when a close friend asked him why he chose the ESOP when he could have found a way to buy the company outright by himself. If he had done so, he would never have had to mention the idea of an ESOP to the employees in the shop. After all, the decision had been left up to him alone. So, why did he do it? As Kostelny explained it, "I could envision what the future would be like as the owner of this business. How could I not pass along and share that same opportunity with the employees that was offered to me?"

Despite his vision of future success, Kostelny admits that he was full of anxiety when he signed the loan papers.

Former owner's perspective

As Bill Ruhlin, former owner and president of Sharon's parent company, said, "the ESOP at Sharon was good for both companies. We were able to withdraw some badly needed capital from Sharon. In turn, we backed Sharon with an additional loan to finance their ESOP transaction.

As a subsidiary, they didn't have enough credit to purchase the company outright."

The idea of an ESOP was not new to Ruhlin when he was contemplating the Sharon divestiture. In the 1970s, the company set up an ESOP for Ruhlin employees. Ruhlin saw the ESOP as an extension of the firm's commitment to profit sharing. His interest in profit-sharing programs had been sparked back in the early 1960s when he heard about Lincoln Electric in Cleveland through a friend who went to work there. He went to Cleveland, toured the plant, met Mr. Lincoln, and learned how they operated their incentive system. The concept of profit-sharing incentives fit Ruhlin's personal beliefs. "I was of the mind that wealth has its roots in productivity, and that a company would be more productive if the people had a share in it," he explained.

The Ruhlin Company subsequently started its own profit-sharing program back in the 1960s. Ruhlin commented that the company's history with profit sharing and employee ownership has been "an evolutionary process. The one essential ingredient being that if there are any profits, your people will share in them."

Strategies for success

Just as Kostelny worked diligently back in 1974 to build a base of customers, after the ESOP was created, he worked hard to convey the message of ownership to Sharon's employee owners. As Gerry Loraditch, a welder-fabricator recalls, "I remember when we got the opportunity to vote on employee ownership back in 1986, it was great."

Kostelny is the first to admit that owner education is a challenge. As he said in hindsight, "If I was to do this again, I would have had everyone here at Sharon attend seminars about ESOPs as I did for six months before I asked them to vote and before we actually got started. It's a complex plan -- it's not black and white."

There have been some struggles. For example, at the annual stockholders' meeting a few years back, a majority of the stockholders voted for an in-house slate which removed the two outside directors on Sharon's Board of Directors. The following year the election results were reversed. Kostelny was relieved because he felt that the management of this type of small business benefits from outside expertise on the board.

To develop internal expertise, Kostelny leads monthly company meetings with Sharon's employee-owners. The meetings are held on one-half hour of company time and one hour of the employee's time. About 90 percent of the workforce attends. A portion of the meeting overviews Sharon's financial status. "The educational aspects of managing an employee-owned company are unique," according to Ken Dochat, Sharon's controller. "We try to get people to understand what it takes to run this company. I briefly highlight the financial statements at these monthly meetings, but people don't make much attempt to understand our finances. It's discouraging."

Dave Blankenship, a welder with four years of service at Sharon offered a non-managerial owner's perspective, "One person may understand the financials, and this has often sparked further questions. But, most of the questions people ask at these meetings are work-related. We gain knowledge of the company's plans so we know what's going on job-to-job. Compared to where I worked previously, employee-owned companies like Sharon are more open."

Kostelny is still disappointed with the low level of interaction at company meetings. Some people do not participate except to complain. Others never say a word.

Though Sharon's employees may not fully understand the company's financial statements, they do understand and appreciate the bonus system. "We agreed in 1986 not to give ourselves wage increases until the ESOP loan was paid. But, we also agreed that if we exceeded our cash goals, we would share the difference in the form of a bonus at the end of each year," said Kostelny. The bonus system is based on individual performance.

I was of the mind that wealth has its roots in productivity, and that a company would be more productive if the people had a share in it.

Kostelny remembers when a new employee came to his office for a private talk after receiving his first bonus check. He had been with the company only six months. "'Must be a mistake on my check,' he announced, 'the decimal point is in the wrong place.' I told him, 'that's no mistake -- that's employee ownership.'"

While wages were frozen over the past five-and-one-half years, there have been few serious personnel problems. Only one person has left the company since the ESOP started. As one Sharon employee explained it, "an ESOP is the best incentive plan a company can give you." Sharon is also proud of its safety record. The company has had no lost-time injuries in four years.

Getting through the recession

"People are nervous right now about this recession. We're not as busy as we'd like to be," says Blankenship. "This slump in business sure makes you steer clear of goofing off. Here in the shop we've been considering whether we would be willing to do jobs at lower shop rates."

Concerns on the floor match the concerns over in the corporate office now that all are owners. "We've been through these cycles before," says Kostelny. "But, this is the first downturn since the ESOP, and our company goals are different now."

As Dochat explained, "In a recession, like we have had recently, good management would dictate a layoff. But as an employee-owned company we try not to do that. We try to maintain what we have. My decisions as a financial manager are more complex. My job is to protect shareholders' equity and jobs. The hardest part has been the longevity of this recession."

The prolonged recession in Sharon's capital equipment customer market has prompted the company to seek innovative solutions. Sharon has approached new customers and markets. Though traditionally a job shop, the company has recently begun marketing a product all its own -- a helicopter landing platform.

"We developed this helicopter landing platform strictly for our own use back in 1978," explained Kostelny, "and the product literally sold itself to people who saw it. Although we actively marketed the product for a few years, we have relied on referral-based sales for the past ten years. This year, because of the recession in our capital-equipment market, we launched a new marketing campaign."

The future

Back in 1986, Kostelny envisioned an opportunity for every employee at Sharon to own a piece of the business. This vision became clearer for Sharon employee owners in June of 1992 when the company made the final payment on its ESOP loan and began its first year of debt-free ownership. The event was celebrated at the company's annual dinner meeting.

The ten-year bank loan used to purchase the company was paid off after only five-and-one-half years. In addition, the loan from the Ruhlin Company was repaid a few years earlier. Positive cash flow, a desire to save on interest charges, and the capacity to maximize allowable ESOP contributions led to the early payoff. Federal regulations allow leveraged ESOPs to contribute up to 25 percent of payroll to the ESOP. This contribution is used to repay the bank loan. Since the annual loan payment was less than 25 percent of payroll, additional contributions were made to maximize the ESOP tax benefits. The company also utilized ESOP stock dividends to accelerate the loan repayment. Dividends paid on ESOP-held stock are tax deductible.

The company is beginning a new chapter in its history with the payoff of its ESOP loan. In the past, Sharon employees would say they didn't want more stock. Many though of it as "just a piece of paper." Explained Kostelny, "We paid cash dividends directly for the first time this year. Now they see the economic impact of what a shareholder is through the dividend paid in cash for each share held."

Along with the rewards of ownership comes increasing responsibility. Repurchase liability was the topic at the company meeting held in July. Sharon's employee owners contemplated the need to put sufficient cash aside for the future to buy back the ESOP shares of retirees. "Frankly, we have as much exposure with this repurchase liability as we had with our loan," Kostelny said. The need to set aside cash for the ESOP's repurchase liability met with initial resistance out on the shop floor. Many people did not understand that the company has the responsibility to buy the stock back when someone retires.

At the same time, Sharon's employee owners look with pride and happiness toward the future. As Blankenship said, "My stock has increased in value since I started working here. My wife loves the ESOP and says I better stick here and retire right where I'm at. This sounds funny, but it still seems too good to be true -- to actually own a part of it. The sky's the limit."

Looking ahead, one certainty is change. Until the ESOP loan was paid off, Kostelny retained the conventional management structure at Sharon. Now he is looking for ways to encourage employee participation and decision-making.

Sharon Manufacturing is a small business with vision, one that creates big results. According to Blankenship, "This company makes the whole effort -- by that I mean leadership and hard work." In the future, the commitment of Sharon's employee owners towards making employee ownership work will continue to be as important as their commitment to producing the best welded-steel constructions possible.

OWNERS SPEAK OUT ON: THE ROLE OF NON-MANAGERIAL EMPLOYEE BOARD MEMBERS

Editorial note: whether or not to have non-managerial Board members is an issue that many employee-owned companies struggle with. In this newsletter, we asked three non-managerial Board members to describe their role on their respective company's Board of Directors, and three management representatives to discuss why they have a non-managerial employee on the company's Board.

Question: What is your role as a non-managerial employee Board representative?

Jim Daulton: Being an employee owner and a member of the Board of Directors is a very unique position. It demonstrates the many different hats you have to wear in today's world and also, the level of responsibility required from us. This is an example of new age management that requires dedication and participation of all areas and that input from all these areas of the workplace are important to running a successful business.

It takes everyone today, whether they're management, union or non-union employees to lay aside their egos or stubbornness and focus on what's important and that is surviving in today's highly competitive business world.

Daulton is Chief Steward of IUE Local 768 at Dimco-Gray, a 100 percent ESOP located in Centerville.

Bob Miller: Fluid Regulators is a 100 percent employee-owned company and all of the Board members are elected by the employee shareholders. Therefore, I do not view it as a struggle between management and non-management. For anyone to benefit, the company must prosper and for the company to prosper, the employee shareholders have to be happy with what's going on. My role is to achieve a balance between the employee shareholders' needs and the company's needs. Hopefully, those needs are the same.

Miller is CAD System Administrator at Fluid Regulators, a 100 percent ESOP in Painesville.

Joyce Notch: Being a member of the Board of Directors gives me the opportunity to become aware of the forthcoming changes, financial situations, and what is happening at the other subsidiaries. It also gives me the chance to be able to communicate with the employees as to what is happening. When issues are being discussed affecting employee owners, it gives me the opportunity to speak on their behalf.

Notch is Director of Specialty Sales for Webway, Inc. a subsidiary of Antioch Publishing, a 52 percent ESOP in Yellow Springs.

OWNERS SPEAK OUT ON: THE ROLE OF NON-MANAGERIAL EMPLOYEE BOARD MEMBERS

Question: Why have a non-managerial employee Board representative?

Karl Reuther: The most important reason is that it adds credibility; out of that credibility comes trust. Non-managerial Board members work very well at keeping people throughout the plant informed and giving them a voice. We have two employee-owner Board members, which, I think, is very important. Since they are my boss, it forces me to listen to what they say. They can come to me with tough situations.

Reuther is the president of Reuther Mold and Manufacturing, a 30 percent ESOP in Cuyahoga Falls.

Jim Anderson: We believe employee ownership without corporate participation is incomplete. Non-management employees bring an insight to Board deliberations that is unique and different from management and outside directors. The highest form of employee participation is membership on the Board of Directors.

Anderson is Vice President and Manager of the Bar Products Group of Republic Engineered Steels, a 100 percent ESOP in Massillon.

Harry Featherstone: All ESOPs over 51 percent must place an elected member on the Board of Directors, but not until all members of the ESOP are completely and thoroughly educated in the complete system of manufacturing leadership control factors. The final communication task in ESOPs is this appointment and its related contacts.

Featherstone is President and CEO of the Will-Burt Company, a 92 percent employee-owned company located in Orrville.

EMPLOYEE-OWNER FORUM

Bill Becker of the H.C. Nutting Company

If It Comes Too Easy, It Isn't Worth Owning

Unlike the majority of ESOP organizations, the H.C. Nutting Company is a service organization. We provide geotechnical, construction materials, and environmental engineering services to an array of more than 15,000 clients primarily throughout a five-state region. Our corporate office is located in Cincinnati with branches in Erlanger, Kentucky; Columbus, Ohio; and Charleston, West Virginia. Our ESOP was implemented three years ago and controls approximately 60 percent of the ownership. Although there are seasonal fluctuations, our staff averages approximately 200. Any of these employees are eligible for ESOP participation provided they are at least twenty-one years of age, have completed a full year of service, and have worked 1,000 or more hours during the plan year.

The H.C. Nutting Company is more than seventy-five years old and was started by the late Harry C. Nutting. Mr. Nutting managed the firm until the mid-1960s when his son Charles took over the reins. In the Fall of 1989, Charles (Chuck) Nutting retired. Like his father, he was interested in protecting the interest of his employees; thus, this was the origin of the H.C. Nutting Company's employee stock ownership plan. The plan provided the mechanism to accomplish the ownership transfer, providing economic benefits to both buyer and seller.

When the Northeast Ohio Employee Ownership Center asked if I would consider writing an article for the Fall 1992 edition of Owners at Work, I hesitated before saying yes, because I knew that picking a subject matter would not be easy, particularly when I was limited to our specific ESOP.

Transition from conventional ownership

I would like to say that our transition from private ownership to ESOP ownership was smooth. But in reality, the acceptance of the ESOP concept and the new management has been slow. The toughest obstacle we have had to address is developing a sense of trust. Lack of trust among employees remains a big stumbling block. In talking with the employees, I have found that many simply felt that the only change in the company has been that there are many bosses now instead of one as in the past. This is partially attributable to the change from an autocratic to a democratic management style. But in reality, it is more greatly influenced by the rapid manner in which the change occurred and the lack of training of managers and employees alike on business-related issues.

Frequently, people do not trust what they do not understand. Part of the problem can be attributed to the lack of knowledge regarding an ESOP organization. And why should there have been a common understanding of ESOP organizations? These organizations comprise a relatively small percentage of businesses as a whole, with each ESOP having its own special twist.

Profile: the H.C Nutting Company

Products: Geotechnical and construction materials and environmental engineering.

Employment: 200.

Sales: $11 million.

ESOP: 60 percent ESOP, formed in 1989 to purchase the ownership interest of retiring owner.

Add to this the new role which an employee has to fill, being a shareholder and an "employee owner." How does one work and act as an "employee owner?" Typically they have been one planet in the solar system; but now, all of a sudden, they are forced to understand the entire business solar system in which they work. They must become knowledgeable of reasonable expenses vs. wants, teamwork, profitability, overhead, covenants, ratios, etc. Add to this the necessity of understanding the distinction between the roles of management and an employee owner. Employee owners also need to understand shareholding, different types of stock, dividends, vesting, stock allocation, and more. This is compounded by the fact that few employees are active investors outside the ESOP.

To some degree, the reluctance on the part of management to involve the employees in the development of company policies and provide them with basic financial information prior to the ESOP contributed to the problem. The guarded nature of past financial information also sent a message to employees that management didn't trust them or, worse yet, doubted their business abilities.

Bill Becker is the Branch Manager of the H.C. Nutting Company's West Virginia division.

Building a climate of trust

During the past three years, management has been working on gaining the support and trust of employees. Through monthly newsletters, frequent meetings, and an open-door policy, there is an attempt to educate the employees with respect to their responsibilities as shareholders and employee owners.

Our monthly newsletter now contains articles on company finances and other business-related issues. With time, these articles will continue offering progressively substantive business and financial information to the employee. In addition, managers and supervisors are being encouraged to hold regular meetings to address the state of the company. Without this regular communication, it is difficult for employees to understand or accept information other than that which specifically relates to their planet. Management needs to do its part to make them more universal or whole-company oriented. This must be accomplished by being open, honest, and providing information at a level that is easily understood by all employees.

Being the current ESOP representative, a shareholder outside the ESOP, a member of the Board of Directors, and a member of the ESOP trust committee, I have had the opportunity to see the viewpoint of both management and employee. The employee needs to see that they have an opportunity to share in the ownership of a successful corporation and to express that pride to those around them. They must be of the opinion that their work is important and it is the charge of management to reinforce that concept. Employees and management alike need to understand the other's role and share mutual respect in order for this to work. From the response I have received regarding our efforts, it appears that employees and managers are beginning to understand their respective roles.

From what I understand, all ESOPs struggle with this issue. Maybe our struggle has been more dramatic because of our ownership history. Whether an ESOP or not, all organizations should ready themselves for ownership transition. They need to spend the time and money necessary to educate both managers and employees. Success or failure in any ownership transition depends upon the readiness of employees to accept their new roles.

Catalog of Products & Services of Ohio's Employee-Owned Firms Available

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

Ohio Employee Owners Help Russian Companies

"If they had told us the Russians were coming five years ago, we'd have been out in front of the plant with guns," commented one of the union officials at employee-owned Republic Storage Systems in Canton. "But now we just try to sell them lockers."

The Russians are in Ohio both to buy lockers and to learn from the diverse experiences of state's employee-owned businesses. Their visits are a clear sign of the dramatic changes underway in Russia as companies and workers struggle with the dynamics of a growing market economy.

Employee ownership promises to play a major role in the development of the Russian market economy. Russian economic-reform legislation currently guarantees that employees will be at least minority owners of state enterprises being privatized, and employees have the option of choosing 51 percent ownership -- if they can finance the purchase of their companies from the state. Russian law also permits employees to buy 100 percent of plants that they previously have leased, and some 1600 companies have already been purchased by Russian employees under this provision.

In September 1992, the Northeast Ohio Employee Ownership Center received a three-year grant from the John D. and Catherine T. MacArthur Foundation to provide technical assistance to use employee ownership in the privatization of Russian state enterprises. The NOEOC is working with the USA-Canada Institute of the Russian Academy of Science, the Foundation for the Economic Reform of Russia and a number of Russian companies in adapting American employee-ownership models to fit Russian circumstances.

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One outgrowth of the Ohio-Russian exchange has been been a series of meetings to discuss the potential for trade between American employee-owned firms and their Russian counterparts. If your firm is interested in exploring potential ventures, contact Dan Bell at (216) 672-3028 for more information.

NETWORK NEWS

Supervisors: From Obstacles to Catalysts

Supervising employees is a tough job. But consider the problems of supervising owners: how are you supposed to direct the work of the guy who owns the place? Every supervisor has nightmares about having the boss's son start work in his department.

In employee-owned companies, that supervisor's nightmare is daily reality. His job is to supervise the guys who own the company. About the best he can hope for is a mild case of schizophrenia as he tries to balance conflicting roles and expectations. A more common outcome is growing frustration as he tries to perform the job as usual amid a rising employee chorus of "If we own the company, why don't we fire that SOB?"

Managers of participatory employee-owned companies regularly bemoan the problem posed by front-line supervision. Both experience and studies suggest that it is the combination of employee ownership and employee participation that gives ESOP firms an edge over their conventional competitors. But successful employee-involvement programs obviously threaten the supervisors' traditional role, and, as a consequence, supervisors are frequently perceived as a barrier to change. Diagnosing the problem is easy enough. But is there a cure?

Network companies supervisor training program

In 1988, Karl Reuther of Reuther Mold and Manufacturing suggested that the NOEOC staff study the role of middle managers at employee-owned companies. Reuther argued that most supervisors were brought up from the ranks because they had reached a level of competence and displayed good work skills -- not because of any skill or talent in supervision. Few ever received training in people skills. Reuther drove his point home with the story of one of his supervisors who told Reuther that he had received only eight hours of formal training and had really learned his job from another supervisor. Unfortunately, his role model was a supervisor whom most worker owners disliked -- and who subsequently had to be fired.

The supervisor problem, as Reuther saw it, was self-perpetuating unless employee-owned firms grappled directly with it. Moreover, supervisors were concerned about losing a status they had worked hard to obtain. "Supervisors perceive employee involvement as a dilution of power and authority," says Reuther. "They confuse asking people for help with losing authority."

When the supervisor issue was energetically debated at the 1989 Annual Network CEO Meeting, there was strong support for a forum to discuss the changing supervisor's role and corresponding training needs. This forum, held in early 1990, and a follow-up survey identified six major training needs: communication skills, role clarification, employee ownership information, understanding attitudes, group facilitation, and running meetings. A pilot Network multicompany workshop sought to deal with the first two of these needs through exercises on leadership and active listening, a panel discussion by supervisors from firms with active employee-involvement programs, and, finally, a general discussion of the ideal employee-owner supervisor.

Participants' evaluations indicated that they found the topics appropriate and helpful for supervisors. For a follow-up workshop, they suggested topics like motivating employees, dealing with difficult people, and improving communication between supervisors and upper management. The importance of this last issue was highlighted again a few months later at a session with supervisors at Quincy Castings.

A reality check at Quincy Castings

One of the Ohio Network CEOs, Mike Bailey of Quincy Castings, saw supervisors as the catalysts who could make employee involvement happen, not as obstacles to the process. "Hourly employees look to their own supervisor to see if employee involvement has his support," stressed Bailey. "After all, many supervisors were once one of them [non-managerial employees]. In order to succeed, it is important that supervisors understand and not fear employee involvement. To that end, supervisors will require training in employee-involvement skills."

In August 1991, Bailey invited the NOEOC to facilitate a discussion among his supervisors, some of whom had attended the earlier multicompany workshop. Supervisors articulated their concerns about employee involvement frankly, identified obstacles that had to be overcome, and made the commitment to implement the program that Bailey proposed. But before they would begin, they asked that three pre-conditions be met: first, that the Board of Directors make employee involvement a permanent part of company policy; second, that supervisors and upper management agree to create an environment where supervisors are not penalized for taking risks or making mistakes related to the change process; and third, that a training program be undertaken.

The Quincy supervisors' arguments reinforced a critical point: multicompany Network workshops can provide individuals with new insights and skills, but if supervisors are to do things differently, they need a supportive environment. Supervisors' legitimate concerns about employee involvement must be addressed on a company-by-company basis.

Training for supervising owners

After three years of discussion, debate, and development, and the involvement of more than fifty supervisors, the Network's supervisor training program has evolved into a pair of one-day, multicompany workshops involving -- ideally -- all the supervisors from the participating companies. (To make this possible, each workshop was repeated three times so that no company would have to lose more than a third of its supervision on any given day.) Then, for interested companies, Network staff facilitate in-company sessions where supervisors and other company personnel can discuss employee involvement at their company. The program encourages supervisors from each company to face employee involvement as a team, rather than as isolated individuals, and to enter into a dialogue with upper management about establishing a supportive environment where supervisors can take new risks. Eleven Ohio companies and sixty supervisors participated in the program.

The introductory workshop encourages supervisors to explore and become more comfortable with their role as catalysts of empowerment. Its includes a leadership-styles exercise, a discussion of the problems which employee involvement creates for supervisors, a lecture/discussion of empowering employee owners, and practice with simulated cases.

The second workshop focuses on developing supervisors' knowledge and skills for promoting employee involvement. This program includes group dynamics, planning effective meetings, active listening, dynamics of change, and greater awareness of the filters through which we evaluate people. Participants also share their experiences with testing empowerment concepts from the previous workshop. One supervisor explained that his efforts to be more receptive with a problem employee had resulted in an improved employee attitude, but he still disliked the employee personally. Another supervisor outlined how he had given the people in his department the opportunity of researching and implementing a new pricing structure, a task he normally would have done alone; as a result he found that they were more accepting of the change and were better prepared to explain to customers the rationale behind the changes.

Will the workshops make a difference?

Perhaps, but not by themselves. Fully two-thirds of the participants favored holding a follow-up meeting at their company for all supervisors and top management. Suggestions for the in-company discussions included improving communication between upper management and supervisors, identifying the company's particular needs, and creating an environment where people are willing to support employee involvement.

In short, the last three years of Ohio Network experience demonstrate that front-line supervisors need not be an obstacle to implementing employee involvement. Supervisors are more than willing to be catalysts for participative management. But they need additional skills and are uncertain about how to proceed by themselves. And most importantly, they want assurance that upper management will support them through bad times as well as good ones.

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Ohio's Employee-Owned Network currently has twenty-eight members. If your company would like to find out more about Network programs, please contact Karen Thomas at (216) 672-3028.

Network Calendar, 1992-1993

EVENT	DATE	LOCATION
ESOP Administration Forum	12/10/92	Kent
Financial Terminology Workshop	1/21/93	Kent
Participation Forum	2/17/93	Quincy Castings
Employee Owner Advanced ESOP Training	3/11/93	Kent
CEO Roundtable	3/25/93	Columbus
NOEOC Annual Conference	4/30/93	Cleveland
Supervisor Roundtable	5/13/93	Yellow Springs
Financial Analysis Workshop	6/10/93	Bowling Green
ESOP Administration Forum	7/15/93	Yellow Springs
Participation Forum	8/19/93	On-site
Network annual CEO meeting	9/9/93	Kent
Employee Owner Retreat	10/22-24/93	Atwood

Owners at Work

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NOECC NORTHEAST OHIO EMPLOYEE OWNERSHIP CENTER

DEVELOPING AN OWNERSHIP CULTURE THROUGH OWNERSHIP TRAINING

Employee-owned businesses often strive to create a participative culture of ownership. Though everyone wishes that changing corporate culture was neat and simple, it isn't. Many firms, however, have discovered that the change process can be accelerated by providing employees with knowledge, new skills, and a wider perspective. In other words, employee-owner training can help make it happen.

What type of training works?

The Center has developed owner-education programs to address the changing roles of managers, supervisors, and non-managerial employee owners, which include these elements:

• *Interaction among participants* -- owner education uses adult learning principles to explore the facts and typical issues facing employee owners.

• *Relevant to employee owners* -- owner education utilizes a case-study format which focuses on "real world" problems and applications, and builds on the experience and goals of learners.

• *Dynamic and challenging* -- owner education provides participants with opportunities to share concerns, to ask questions, to gain a broader perspective, and to challenge typical assumptions about ownership.

With these elements in mind, the Center designs and develops general and company-specific training programs to educate and inform employee owners of their roles and responsibilities; to create and enhance employee participation, communication, and involvement; and to accelerate the development of a culture of ownership. These programs feature:

- **Technically sound educational materials about employee ownership** which accurately reflect current laws, generally accepted ESOP practices, and basic company-specific elements.

- **Customized sessions to meet company-specific training needs** in understanding financial statements, business strategies, and ownership structures; and in helping to facilitate employee owner participation, communication, and involvement.

- **The building of internal resources within the company.** In a a train-the-trainer program, employee owners are trained to become internal sources of information. So when the formal program is over, the knowledge is still there.

For more information on the NOEOC's training programs, call Jim Bado at 216-672-3028.