OWNERS AT WORK

OHIO EMPLOYEE OWNERSHIP CENTER

Volume X No. 1 Summer 1998

Employees Win! Brainard Rivet Re-opens

Employee-owned Fastener Industries Buys Brainard; Includes Brainard Employees in Fastener ESOP

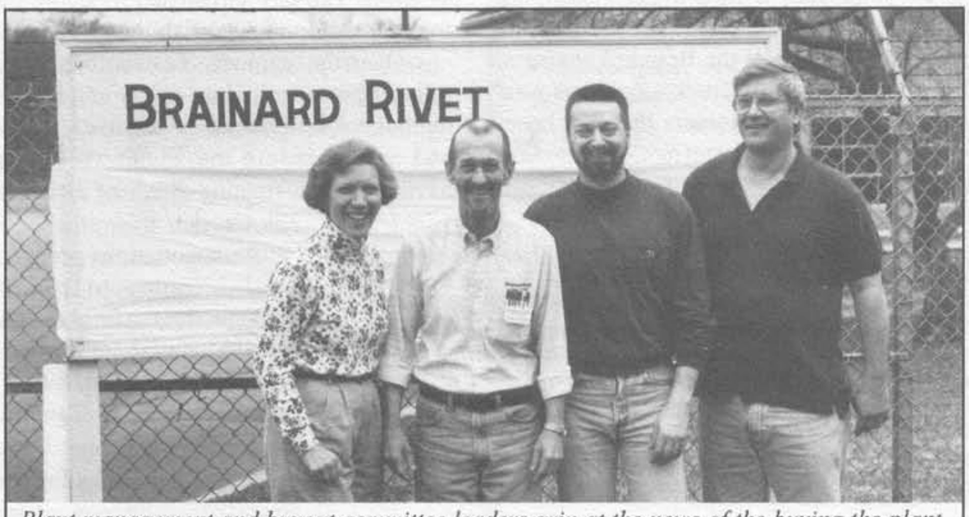
Eleven months after losing their jobs when Textron's Camcar Division shut their plant last June, Brainard Rivet employees are going back to work.

But they are not going back as hired help. They are finally going back as owners.

During an epic organizing effort that lasted fourteen months, the Brainard Buyout Committee at first fought the shutdown and lost. Textron shut the plant in June 1997. But the Committee held together, kept up the pressure on Textron -- a major defense contractor -- to come to the table, negotiated a purchase agreement for the assets, and ultimately made a deal with employee-owned Fastener Industries to buy and reopen the plant. The deal went through on April 30, 1998.

The Shutdown

Brainard Rivet is a specialty fastener manufacturer in Girard, Ohio. It has always been a specialty shop. It was set up originally to make rivets for strapping on wooden barrels in 1917. It changed with the times. In recent years it has flourished making short-run "specials" -- intricate solid-bodied fasteners for special uses. It employed 68, paying excellent wages and benefits under a Steelworker contract.



Plant management and buyout committee leaders grin at the news of the buying the plant. From left to right: Judy Volpe, Marty Gallagher, Jeff Chine, and John Chetsko.

The Brainard shutdown seemed completely inexplicable to the employees. The plant was always profitable. In fact, it was one of the most profitable of Textron's Camcar fastener division plants. It earned more than $2.2 million on $14 million in sales in 1996.

"Why shut it?" was the question raised by Girard Mayor Schuyler's office and around employees' dinner tables alike.

Camcar's answer was that the company wanted to consolidate production in Elk Creek, Virginia, a non-union plant. Brainard employees argued that Elk Creek couldn't run their product successfully.

"I've seen a lot of shutdowns since the OEOC was established in 1987," said OEOC Director John Logue. "A number of them were shutdowns of profitable Ohio operations just because they were looking for cheap labor in the South or offshore. But I've never seen a company shut down a plant that was this profitable just because it was their only union plant in the U.S. This really took the cake."

Employees used every means they could to keep the plant open. The Ohio Bureau of Employment Service's (OBES) Rapid Response Unit helped to fund the initial feasibility work, and local economic development officials and office holders rallied to the employees' side. Governor Voinovich's economic development representative Julie Michael weighed in for the employees on the Governor's behalf. The buyout committee retained Harry Kokkinis, a New York business analyst, to represent them and to work up a preliminary feasibility assessment of an employee-owned Brainard.

When Textron refused to deal with them as buyers and went ahead with plans to shut the plant and move the equipment to Virginia, employees rallied at the plant gates to block the trucks from taking out equipment and shipping products to customers. Other workers from the Autoworkers at the Lordstown GM plant, the IUE at Delphi-Packard, the Teamsters and the Building Trades joined the Steelworkers. One Buyout Association press release delicately reported, "after listening to the community rally for a few minutes and checking in with their boss, the movers [from Landstar Trucking] decided to turn around and head home empty."

Many customers were set up for "just in time" delivery, so the pressure on Textron escalated as irate customer calls increased. The police were eventually called and arrested those on the picket line including Buyout Committee Chairman Jeff Chine for disorderly conduct and "failure to disperse." "They arrested us, handcuffed us, took us to the station, booked us, and in 45 minutes we were back on the picket line," said Chine. Charges against Chine and the other pickets were subsequently dropped.

"Textron didn't know what they were getting into," said Marty Gallagher, Brainard machine shop foreman who was in charge of shipping Textron's product and equipment out. "They had grabbed a tiger by the tail."

Perseverance Pays Off

Despite the shutdown, the Buyout Committee simply refused to give up. "In Jeff Chine, they had a guy who could lead, who could withstand the ups and downs of the rollercoaster ride he was on, and still keep the faith," commented Kokkinis when asked why the deal went through. Since Textron wouldn't sell, the Buyout Committee explored if they could simply rent space and buy equipment to go into competition with Elk Creek. With

> ***"They arrested us, handcuffed us, took us to the station, booked us, and in 45 minutes we were back on the picket line."***
>
> ***Jeff Chine***

this scenario, the preliminary feasibility study indicated that they could break even on $3 million in sales -- about 20% of previous sales.

The turning point in the employees' efforts to get Textron to entertain their offer came when employees verified the rumors that Textron was actually sending much of the Brainard business to competitors rather than running it at Elk Creek. Kokkinis was able to compile a list of more than 50 customers that had been dumped by Textron. This infuriated Youngstown Congressman Jim Traficant who had previously been told by Textron that all the Brainard work was going to other Textron plants.

"There does not appear to be a justifiable economic rationale behind Textron's decision [to shut Brainard],"

The Brainard picket line was a low tech operation, but the blockade of the plant postponed Textron's shipment and shutdown schedule. "We were trying to get Camcar's attention," said Chine. Photo: Emil David

Traficant wrote to Textron CEO James F. Hardymon. "Why would Textron oppose an ESOP if it is referring a significant number of Brainard customers to other non-Textron companies?"

The empty facility in Girard was an expensive albatross around Textron's neck politically. Traficant was on the U.S. House Aviation Subcommittee, which would be voting on Textron aerospace projects in the future. There was political pressure in Washington from Senators DeWine and Glenn as well. State Senator Bob Hagan and State Representatives June Lucas and Ron Gerberry were also very helpful in pressuring Textron. The city threatened to slap a lien against the property for past environmental liabilities.

Over the summer, Textron began to back off its refusal to sell. It permitted white collar employees and managers to join the buyout association. Moreover, just as Brainard employees had argued before the shutdown, Textron found that it was having trouble running much of Brainard's work profitably at Elk Creek.

As negotiations progressed for employees and local investors to buy the building, Textron became increasingly cooperative. It began moving unused equipment back from Elk Creek. Ultimately Controller Judy Volpe and Gallagher, who were still on Textron's payroll, helped put the buyout together. The deal grew from a near empty plant to including two-thirds of the original Brainard equipment, and Textron referring a number of smaller specialty customers to Brainard.

Fastener as Partner

Given the plant's record of profitability, a restart seemed plausible, and a State preliminary feasibility grant from the Ohio Bureau of Employment Services (OBES) paid the cost of a market and start-up study. With that study in hand, the employee buyout group actively pursued several partners.

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

The OEOC is funded by grants from the Ohio Department of Development's Office of Labor/Management Cooperation, the Ohio Bureau of Employment Services (OBES), the Cleveland Foundation, the George Gund Foundation, the Federal Mediation Conciliation Service (FMCS), and the Calvin K. Kazanjian Economics Foundation as well as contributions from Kent State University, Friends of the Center, and the companies that comprise Ohio's Employee-Owned Network. **Address:** OEOC, 309 Franklin Hall, Kent State University, Kent, Ohio 44242. **Tel:** (330) 672-3028 **Fax:** (330) 672-4063 **email:** oeoc@kent.edu **website:** http://www.kent.edu/oeoc

Owners At Work (ISSN 1046-5049) is published twice a year by the OEOC. Letters, articles, requests for permission to reprint and subscriptions (which are free) should be sent to the editor. ***Owners At Work*** is funded in part by the **Ohio Department of Development Labor-Management Cooperation Program.**

Ultimately Fastener Industries emerged as the employees' preferred partner: it had the financial resources, an established distribution network which handled other specialty fasteners, and was employee owned. "We saw Brainard as a good opportunity because of the people involved," said Fastener CEO Pat Finnegan. "They are really good. We know they can get the business up and running. These guys deserve to be employee owners."

"Moreover, there's real synergy between us and Brainard. We run similar equipment: there are things we can learn from for each other. We'll both come out better than we were before."

Employees, their families and the community rallied repeatedly to keep pressure on Textron. Photo: Emil David

Brainard will operate as a wholly-owned subsidiary of Fastener, and as members of the Fastener ESOP, Brainard employees will receive Fastener stock annually. "Fastener's whole mentality is to emphasize that employees are running their own business," says Volpe, who is now Brainard's general manager. "It's simply the right atmosphere."

Brainard will have its own profit sharing plan. "One thing that Textron did right was to have really good incentive plans in place. So we wrote profit sharing into our business plan to compensate for the wage concessions -- 20-35% that were necessary to reopen as a stand-alone employee-owned company," said Volpe. "We had structured a salaried plan as well as an hourly plan. When we started talking to Fastener, they liked the profit sharing, but asked us to put everyone in the same plan because we are all owners. If we hit our numbers, there will be profit sharing in the 2nd year."

"Profit sharing was part of their business plan," said Fastener's Finnegan. "They are going to be running their own business. So their proposal appealed to my sense that their compensation ought to be tied to Brainard's performance."

On the morning of May 1, the day after the deal was signed, the first order came in. "If we had a coil of wire in the shop, we could start running it today," exclaimed Chine triumphantly. "Our business plan calls for us having 20 employees back at work by Christmas and 30 or more within three years. We know we're going to beat those targets."

By the end of the deal, Textron was happy with the outcome too. "We were pleased to announce the sale of the Girard facility," said Dean Lamb, manager of marketing communications for Camcar. "We wish the new owners well in their business venture. We worked hard with them in the sale of the business in hopes of bringing a new owner in who could create jobs in the area. Both sides worked diligently to bring it to fruition. Everybody can walk away saying that this was a good thing." "Textron has been a big help," said Finnegan. "They certainly have done more than they needed to do."

"People say that business is made up of the people, and these are real high quality people," Kokkinis reflected. "That was true when they were operating and it was true when they were getting it reopened. I think that that's what Fastener really invested in: the people." □

"These are real high quality people. That was true when they were operating and it was true when they were getting it reopened. I think that that's what Fastener really invested in: the people."

Harry Kokkinis

Friend of the Center

As a recipient of *Owners At Work*, you are aware of the Center's commitment to retaining jobs, anchoring capital in our communities, and educating employees and others interested in employee ownership. Whether we are working with a retiring owner, an employee buyout group or an existing employee-owned company, the OEOC staff is truly dedicated to serving the needs of others.

Over the past year we helped Ohio employees avert shutdowns and save their jobs at places like Brainard Rivet in Girard, Ohio and AmAir in Youngstown, Ohio. Another five companies we've worked with in 1997 are putting in ESOPs as part of ownership succession strategies. Every day, our staff helps to build a more just — and more productive — economy through employee ownership.

Although our efforts are supported by the State of Ohio and a few private foundations as serving an important economic development role, in recent years we've been asked to do "more with less." Consequently, we are turning to grass-root support from the folks who know us best.

If you have not done so already, please consider becoming a *"Friend of the Center"* by making a tax-deductible donation to help the OEOC continue providing quality services. Your individual contribution will help the Center serve you and others interested in employee ownership.

I hope you enjoy *Owners At Work* and thank you very much for your support.

Kindest regards,

John Logue
Director

Checks should be made payable to:

KSU Foundation / OEOC
Ohio Employee Ownership Center
309 Franklin Hall
Kent State University
Kent, Ohio 44242

Network News

Ohio's Employee-Owned Network's Mission

Ohio's Employee-Owned Network provides a forum for those working at all levels in employee-owned companies to learn from each other how to make employee ownership work more effectively. The Network organizes multi-company shared learning opportunities, roundtables, and training sessions which address the unique challenges of ESOPs.

Bliss-Salem is Employee-Owned Company of the Year

Bliss-Salem won the 1998 Employee-Owned Company of the Year Award presented by the Ohio Chapter of The ESOP Association. Three years ago the firm launched a successful turnaround; sales rose from $25 million in 1995 and $36 million in 96, to over $60 million in 1997. Open-book management, employee involvement, and effective working partnerships with the USWA local union and management, the firm's safety committee, and operating teams have contributed to the firm's success. Union President and 1997 Ohio Employee-Owner of the Year, Gary McCauley, accepted the award on behalf of Bliss's 275 employees. McCauley credited their efforts since 1994 to rebuild the board of directors, to bring in a new CEO, and to reengineer the company as the foundations of their success.

Located in Salem, Bliss originated in 1986 as a 100% employee-owned ESOP company. Major increases in Bliss's international business have helped the firm earn the Exporter of the Year Award from the Salem Chamber of Commerce and the Governor's Excellence in Exporting Award. A former division of the EW Bliss Company, the firm designs and manufactures rolling mills and related products and leads its industry in cold rolling mill upgrades.

Dick Flickinger, Kathy Cook, Gary McCauley, and Doug Pitts of Bliss-Salem display the Ohio ESOP Company of the Year Award. Fickinger, Cook, and Pitts are members of the firm's Presidents' Council.

Kathy Fullerton is Employee Owner of the Year

Kathy Fullerton, the Safety/Health and Environmental Director of Quincy Castings, Inc. won the 1998 Employee-Owner of the Year Award presented by the Ohio Chapter of The ESOP Association. "As an ESOP Administrative Committee member, Kathy is a promoter and leader in building a successful ownership culture at Quincy. She is instrumental in educating her fellow employees, the media, and public officials about the ESOP" said David Decker of Zandex and President of the Ohio Chapter of The ESOP Association in announcing the award. Fullerton joined Quincy in 1988 and was elected by her fellow employees as a nonmanagerial representative to the ESOP Administrative Committee. She also has co-chaired the Quality Team, published the newsletter, served on the committee to select a new CEO in 1994, served on the committee that planned the firm's ESOP loan payoff celebration in 1995, and appeared on local TV to explain Quincy's ESOP and culture. She currently serves on the committee that plans monthly ESOP activities and speaks at the annual shareholder meeting to provide ongoing ESOP education and explain voting issues. Fullerton rose through the ranks in numerous capacities including serving as the supervisor of the Cleaning and Finishing Department.

Kathy Fullerton celebrates at a party in her honor as 1998 Employee Owner of the Year. The event was held at Quincy Castings.

"Her leadership and dedication helped us make a major turnaround in the early 1990's and become the Ohio ESOP Company of the Year in 1995," said Gary Bardon, President and CEO of Quincy Castings located in Quincy, Ohio. With 105 employees, Quincy produces grey and ductile iron castings for industrial uses and became an ESOP company in 1990.

Concrete Technology Wins National Award

The national spotlight is on Concrete Technology and their Employee Owner's Guide which won an Award for Communication Excellence (an AACE Award) presented by the ESOP Association at the association's national conference in May. CTI's ESOP Owner's Guide is a 15-page employee handbook which explains why and how the ESOP was started at the firm, the potential benefits of the ESOP, and provides background about the business. Karen King, the firm's HR representative, was in Washington to accept the award on behalf of the ESOP Advisory Committee whose members developed the handbook. CTI, located in Springboro, manufactures high quality, custom architectural precast concrete components.

Network Programs

Can Employee Owners Manage Safety?

This question drew 19 safety committee members and managers from nine ESOP firms to the Network's Participation & Communication Forum on Safety Management hosted by Plasticolors in May.

"Everyone is responsible for safety," explained Don Herndon, the administrator of safety at Plasticolors, "yet employees will only believe in safety to the degree that he or she thinks the boss believes in it. Management support must be vocal, visible, and continuous." Herndon gave an overview of the firm's comprehensive health, safety, and environmental system and its components which have been developed over the past seven years. System components include the vision, policy formation, strategic three-year goals, fiscal year objectives, process analysis, corrective actions, the safety steering committee, awareness, training, recognition, and quarterly management reviews. The firm won the Governor's Award for Excellence in Safety and has achieved cost savings of over $120,000 a year through their safety management program.

Can employee owners manage safety? Probably better than most, agreed Herndon and others at the session, especially if top management provides their people with visible support and tools. The day-long program included a tour of the firm's production areas for a close-up look at aspects of the safety system including the safety checklists that are completed by every work unit leader. Plasticolors, located in Ashtabula, produces liquid colorants for the plastics industry. The 20% ESOP-owned firm has 150 employees.

Don Herndon of Plasticolors answers questions during a company visit and gives Safety Management Forum participants a closer look at the firm's award-winning health, safety, and environmental system.

Plan to participate in the Network's next Safety Management Forum on July 23rd in Dayton featuring safety efforts at Bush Leasing, Dimco-Gray, and YSI.

ESOP Committees Build Community

Promoting communication and education to build a community of owners is the task of ESOP committees at many employee-owned firms. At the 1998 planning session of last year's Network annual meeting, company representatives expressed a strong need for multi-company training of ESOP Committee members. As a result, two sessions have been held this spring, one in northeast Ohio and the other in southwest Ohio.

ESOP committees are typically responsible for promoting awareness of the ESOP and encouraging others to work together and build a more participatory culture at their firms. During the session, participants reflected on their roles in communication, education, and the development of leaders as part of a larger cultural change effort within their firms.

Opening the books, holding well-organized meetings to encourage two-way communication on goals, casual get-togethers, and company-wide e-mail systems received wide mention as best communication practices. Successful education efforts to promote continual learning included coffee break discussions, employee libraries, customer visits, seminars, and orientations for new hires. Celebrations are important. Many companies distribute certificates and awards at annual meetings, celebrate during work hours, organize fundraisers to benefit their communities, and celebrate all successes! For more information on the role of ESOP Committees, check out the OEOC's website at www.kent.edu/oeoc. □

New Book:

Participatory Employee Ownership

Participatory Employee Ownership: How It Works (192 pp.) by John Logue, Dick Glass, Wendy Patton, Alex Teodosio, and Karen Thomas is a brand new, best practices book prepared by the OEOC for the Steelworkers' Worker Ownership Institute.

Participatory Employee Ownership summarizes current knowledge of what makes employee ownership work better. It examines best practices for establishing participatory employee-owned companies in buying the company; in decisions to make concerning the ESOP plan; in structuring employee participation, communications and training; and in organizing gain sharing and profit sharing. It examines the union's role in the employee-owned firm; the issues in mature ESOP companies; why some ESOPs fail; and the role of the employee-owned company in the broader community. It is full of concrete advice and examples from employee-owned firms that you can use in your own company.

"It takes a great deal of effort, know-how and training to effectively establish an ESOP company. This manual was developed to fill that need."

Allan Concoby & Lynn WIlliams
Co-Chairs

Single copies can be ordered from the Ohio Employee Ownership Center, 309 Franklin Hall, Kent State University, Kent, OH 44242. **Tel:** 330-672-3028; **Fax:** 330-672-4063; **e-mail:** oeoc@kent.edu **website:** www.kent.edu/oeoc

Bulk orders from union locals should be directed to the Worker Ownership Institute, USWA, 5 Gateway Center, Pittsburgh, PA 15222; **Tel:** 412-562-2254; **Fax:** 412-562-6978.

Paperback $14.95; ISBN: 0-933522-23-1
Hardback $24.95; ISBN: 0-933522-24-X

ESOP Association Runs 6th Annual Employee Owner Retreat

The ***Employee Owner Retreat***, run annually since 1989 for **Ohio's Employee-Owned Network**, is also available nationally. **The ESOP Association** began making the program available to employee owners throughout the country in 1993. This year's sixth annual ESOP Association Employee Owner Retreat will be held near Chicago, at the Indian Lakes Resort in Bloomingdale, Illinois. The Retreat is a three-day, off-site training seminar, where *non*managerial employee owners learn from and interact with their peers from other ESOP companies. In small groups, structured exercises, and informal discussions, employee owners develop new team problem solving skills, become more knowledgeable about ESOPs and company financial statements, and gain a new perspective on employee ownership at their respective companies.

While any employee owner is welcome, the program is designed primarily to give hourly and salaried nonmanagerial employees an opportunity to learn *with* and *from* their peers. Typically these come from outstanding ESOP companies, both service and manufacturing, where developing a culture of ownership is considered an important aspect of corporate success. Participants are often members of the board of directors, ESOP committees, problem-solving teams, and company trainers.

Sending 2 to 4 co-employees maximizes the effectiveness of the retreat experience.

PAST PARTICIPANTS HAVE SAID:

"I think all employees should have the chance to go through this; this way they can hear from other companies and see how they work with ESOPs and make it work!"

"I learned more this weekend than I ever expected. Now I can look through our summary plan and actually understand it!

"It's a great experience!"

Do you want your firm's employee owners to:

... Recharge their enthusiasm

... Meet other employee owners

... Participate more effectively

... Better understand ownership

?

They can do all this and more at the

ESOP Association's

6th Annual

EMPLOYEE OWNER RETREAT

INDIAN LAKES RESORT

Bloomingdale, Illinois

July 31 - August 2, 1998

Chicago Area

20 minutes from O'Hare International Airport

Training conducted by the

Ohio Employee Ownership Center

SCHEDULE: The Retreat kicks off at **Noon on Friday** and concludes with a box lunch at **1pm on Sunday**.

COST: **Members of the ESOP Association pay $475** for first participant; **$325** for additional participants, includes meals. **Non-members** of the ESOP Association pay $625 for the first participant and $475 for each additional participant.

LODGING: Call Indian Lakes Resort, **630-529-0200** to reserve a **$126** room (can be used as a double).

TO REGISTER: Call the ESOP Assoc., Rosemary Clements, **202-293-2971**, or the OEOC, Karen Thomas, **330-672-3028**.

Steve Clem Joins OEOC Staff

Previously Research Director of the Rubber Workers

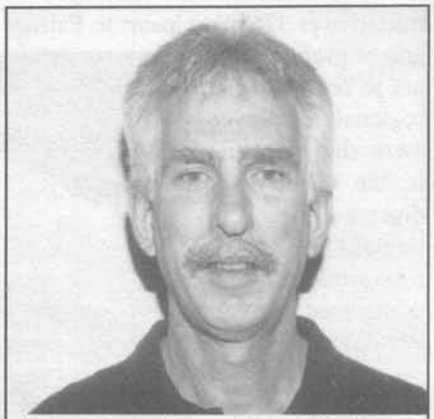
We are delighted to announce that Steve Clem has joined the OEOC staff. Clem brings an outstanding background in labor research and business analysis to the Ohio Employee Ownership Center.

Clem joined the Research Department at the Akron-based United Rubber Workers in 1969, and served as Research and International Affairs director of the Rubber Workers from 1977 until 1995 when the URW merged with the Steelworkers. With the merger, Clem joined the USWA research staff in Pittsburgh.

"The Steelworkers is a great union, and I am sorry to leave especially as the USWA, UAW, and IAM move toward their merger," Clem reflected. "These are exciting times! But commuting between Fairlawn and Pittsburgh was getting old. My roots -- and my family -- are here in the Akron area."

"I'm really pleased to be joining the OEOC team. I was always interested in what the Center was doing, and I got to see a good bit of it when I sat in on the OEOC Advisory Board for Mike Stone and Ken Coss. Employee ownership offers real opportunities for working people."

Clem grew up in Strasburg, Virginia, holds a Bachelor of Science degree from Shepherd College in Shepherdstown, West Virginia, and did graduate work in economics at the University of Delaware before he joined the URW Research Department.



Steve Clem, former United Rubber Workers Research Director.

At the OEOC, Clem will be doing buyout work, research, collective bargaining training, and development work on the Ohio "Equity for ESOPs" fund and on the new National Employee Ownership Training Institute™ course on employee ownership for labor educators. □

Succession Planning Program

Fall 1998 Schedule of Seminars

The Ohio Employee Ownership Center (OEOC) has been teaming up with the Greater Cleveland Growth Association's Council of Smaller Enterprises (COSE) 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.

Program participants receive *"An Owners Guide to Succession Planning,"* a Service Provider Directory of local practitioners, worksheets, selected readings and presenter packets. Participants also have a chance to ask technical questions and interact with other business owners.

This program is jointly funded by the **Cleveland Foundation** and the **George Gund Foundation** as an effort to retain jobs that would otherwise be lost from failure to plan for succession. Each seminar, *with the exception of September 24th*, runs from 8:00 a.m. - 10:00 a.m at the Greater Cleveland Growth Association in downtown Cleveland at Tower City. **Registration is limited to the first sixteen business owners per seminar who sign up.**

Date	Topic	Key Speaker(s)
Thursday - September 17	**Transition Planning**	**Richard Tanner**
Thursday - September 24	**Initial Steps in Succession Planning***	**Neil Waxman**
Tuesday - October 13	**Buy Sell Agreements & Legal Issues**	**Carl Grassi**
Tuesday - October 27	**Tax Consequences & Incentives**	**John Seich**
Wednesday - November 18	**Family Issues**	**Roger Warrum**
Tuesday - December 8	**Employee Stock Ownership Plans**	**John Logue & Alex Teodosio**

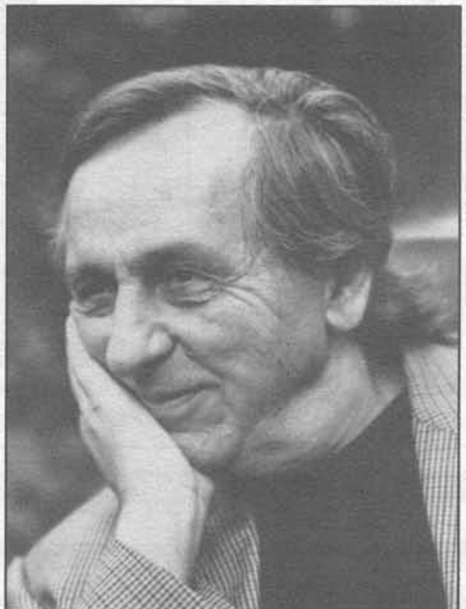
** The September 24th Seminar will take place at the Akron Regional Development Board at the Cascade Plaza in downtown Akron from 8 a.m. - 10 a.m.*

To register or for more information, please contact:
Alex Teodosio at 330-672-3028 or ateodosi@kent.edu

1998 Ohio Employee

"Employee Ownershi

Employee Ownership in the Global Economy, the theme of the 12th annual Ohio Employee Ownership Conference, attracted over 325 participants to Fairlawn, Ohio, on April 3. The annual event continues to be the largest regional employee ownership gathering in the country. A diverse cross-section of Ohioans was represented as well as national and international guests.



Bill Greider, award winning PBS commentator and author of One World, Ready or Not.

In keeping with the global theme, keynote speaker **Bill Greider** elaborated on ideas from his new book, *One World, Ready or Not*. Growing trade can impoverish us all through a race to the bottom in which our jobs move offshore leaving behind empty factories, while overseas workers remain mired in starvation wages, rampant pollution, and deadly working conditions. On the other hand, broadened capital ownership through mechanisms like Employee Stock Ownership Plans can convert global trade into the engine for raising living standards at home and abroad. Greider continued the discussion in a breakout session on *new frontiers for employee ownership in the 21st century*.

Participants who were inspired to explore globalization further found several opportunities throughout the day. **David Hein** of the **Chilcote Company** and **Bill Marshall** of **Joseph Industries** shared their respective company's exporting experiences. **Jay Simecek** of **Joseph Industries**, **Gary Bardon** of **Quincy Castings**, and **Kathy Cook** of **Bliss-Salem** led employee owners in a discussion of the advantages of looking at employee ownership *beyond company walls*. And finally, several *labor investment funds* were examined as newly emerging vehicles for financing broadened ownership.

Nuts & Bolts of Establishing ESOPs Still Conference Core

Whether solving the world's problems or simply making sure your company keeps providing living wage jobs for years to come, central to the conference every year are the nuts and bolts sessions on how to establish an ESOP. *ABCs of ESOPs* introduced buyers and sellers to the concept. Then interested sellers also heard **Heath Oliver** tell how he sold **Bardons & Oliver** to his employees, while hopeful buyers were exposed to the challenges of organizing a buyout to avert shutdown presented by **John Chetsko** and **Jeff Chine** of **Brainard Rivet**, **Dave Forgac** and **Matt Stroney** of **Am Air Flight Centre**, and **Dan Pottmeyer** of **Producer Services**. **John Warfel** of the **James B. Oswald Company** helped make the point that *management succession* is an important ingredient to making sure the employees' company succeeds after the sale.

Congressman Jim Traficant with
Buyout Association.

Technically, ESOPs Remain Technical

There is no way of getting around the complexity of ESOPs. What can you expect from a retirement plan which is surrounded by terms like *cash flow*, *fiduciary responsibilities* and *tax law?* As **Antioch Publishing** has added over 20 new millionaires to Tiffany's catalog mailing list, **Barry Hoskins** has had to think a lot about issues like *repurchase liability and diversification*. And while CFOs are worrying about where to come up with the cash, ESOP fiduciaries need to make sure their ESOP participants are getting the right amount of cash for their stock. Many of their questions were answered in the session on *valuation and other trustee issues*. There was a newcomer to the technical topics this year - the *sub-chapter S ESOP*. A larger room had to be found at the last moment to accommodate all those curious participants who wanted to find out why and how **Gary Bardon** from **Quincy Castings** made the conversion to a sub-chapter S corporation.

Putting Ownership into ESOP Still the Biggest Draw

Perhaps the biggest reason over half the conference participants come from *existing* employee-owned companies is

David Shapiro (left) from Keilin & Co. and Tom Croft (right) from the Steel Valley Authority talk investment funds.

Ownership Conference
in the Global Economy”

is friends from the Brainard Rivet

the opportunity to hear about each other’s latest breakthroughs in making ownership meaningful and profitable for employees. *ESOP communication committees* lead the charge in making ESOPs meaningful to their fellow employees. Cutting edge stories of how they are doing it were told by **Sandra Byrd** of the **Flood Company**, **Mary Finke** of **Power Transmission Technology**, and **Andrea Peters** of **Joseph Industries**.

Improving safety is one area where employees begin to act like owners. **Bill Marzec** of **Thybar**, **Jason Grubb** and **Mike Shaw** of **Bush Leasing**, and **Dave Turner** of **YSI** all shared how their employee owners are *managing their own safety*. The bottom line is also improved through *continuous process improvement* as told by **Nancy Maloof**, **Bill Hess**, **David Stephany** and **Robert Sulecki** of **Erie Forge & Steel**, and **Christine Kerrigan** and **Dan Petschke** of **Delta Systems**. The combination of ownership and employee involvement really takes off when information is added to the mix through *open book management*.

Keith Nichols of **Power Transmission Technology** and **Tom Pottorff** of **Monroe Evening News** discussed the challenges and rewards of opening the books at their companies. Of course, with all of this interaction going on among employee owners, the session about *managing conflict on the front line* may have been just what a few front line leaders needed to help them adapt to managing owners. So how do employee-owned companies strike the right balance between running the business, promoting the ESOP, tackling safety and avoiding conflict? Strategic planning plays an important role as described by **Jim Daulton** of **Dimco-Gray** and **Gary McCauley** of **Bliss-Salem**.

Roger Warrum energizes owners about the importance of dealing with family issues in planning for succession.

1998 Employee Ownership Awards

Of course, none of the success stories shared throughout the conference could have happened without the outstanding efforts of individuals who believe in employee ownership. Each year a few such individuals are honored for their contributions.

For Utilizing Employee Ownership as a Succession Plan, **Heath Oliver** of **Bardons & Oliver** was recognized. Oliver chose the company’s 135 employees over potential foreign buyers to be his successors in ownership.

For Globalization of Employee Ownership, **Olga Klepikova** was recognized. Since 1994, Klepikova has worked to make formal employee ownership, which is widespread across Russia, meaningful to a growing number of employee owners.

Jeff Chine accepting an award for the the gallant efforts of the Brainard Rivet Buyout Association.

For Legislative Leadership, **Congressman James A. Traficant** and **Con-gressman John R. Kasich** were honored. Both Congressmen represented their constituents, involved in employee buyout efforts, through direct contacts corporations that were initially deaf to their employee purchase bids.

For Buyout Efforts, the **Brainard Rivet Buyout Association** was recognized. As valuable as this award may have been for them, their greatest reward was the successful completion of their buyout four weeks later on April 30th, with the financial support of the employee owners at **Fastener Industries**.

And a Little Fun Thrown in...

As always, the day was full of laughter and smiles, from the colorful remarks of Congressman Traficant in the morning, through the distribution of door prizes donated by **Dimco-Gray** and **Am Air Flight Centre** at lunch, to the concluding reception sponsored by **American Capital Strategies**. We hope we’ll see you on **April 9, 1999**, in Akron, Ohio for the 13th Annual Employee Ownership conference when we do it all again! ▫

New Investment Fund Targets Unionized Firms and Employee Ownership

One of the major limitations on the growth of employee ownership in the United States has been the absence of a reliable source of friendly venture capital to take an equity stake in turnaround situations and corporate divestitures. Since 1995, **Owners At Work** *has followed the evolution of the Crocus Fund in the Canadian province of Manitoba. An update on Crocus is included on the next page.*

Over the past year, there has been an explosive growth in funds designed to do just that in the United States. In the last issue we profiled both Churchill Capital's ESOP fund and American Capital Strategies' new fund (see sidebar on ACS's first Ohio placement). Today there is a new, and even bigger, kid on the block - the KPS Special Situations Fund.

The newest, and largest, fund with a preference for employee ownership is the KPS Special Situations Fund, established by Keilin & Co. The KPS (for Gene Keilin, Mike Psaros, and David Shapiro) Special Situations Fund and KPS Supplemental Fund are together capitalized at $190 million.

Both KPS funds focus on investing in restructurings, turnarounds and other special situations. Investors in the Fund include state and private sector pension plans, financial institutions and Taft-Hartley plans. Among the funds' investors are large U.S.-based financial institutions that are prepared to provide loans, leases and other forms of debt financing for KPS-owned companies.

KPS is targeting investments in companies with annual revenues ranging from $50 to $500 million and is looking to invest between $5 and $25 million of equity per transaction. In addition, they are prepared to pursue substantially larger transactions which they will fund through the KPS funds as well as by drawing on the significant direct investment capabilities of their limited partners and other investors. Moreover, through their investor group, they also have access to substantial lending and capital markets capabilities which will help them finance KPS portfolio companies.

A Wall Street Love Affair with Unions?

Gene Keilin, Mike Psaros and David Shapiro have worked closely with the labor movement for almost a decade. They've had some remarkable successes. The most notable: these three partners worked for the Airline Pilots in putting together the United Airlines buyout in 1994, which created the country's largest majority employee-owned, unionized firm. The KPS principals have also advised labor in many of the other large union-led financial transactions in the United States and Canada, including Algoma Steel (Canada), Republic Engineered Steels, and Weirton Steel. Their aim is to structure transactions that align the interests of management, employees and capital.

> *"We are one of the few funds that wants to invest in distressed situations. We emphasize the importance of positive employer and employee relationships."*
>
> ***David Shapiro***

KPS intends to "do well by doing good." KPS expects to realize significant capital appreciation by taking controlling positions in under performing middle-market companies requiring operational, financial or strategic restructuring, often in cooperation with unions representing the company's employees. The KPS fund is unique in that it is the first fund ever raised on Wall Street that is committed to investing equity capital in unionized companies. Moreover, while many funds which invest in distressed situations pursue "slash and burn" tactics or seek to achieve an investment return through liquidation, KPS's investment strategy is predicated on cooperative and constructive engagement with all of a company's stakeholders.

What is a Special Situation?

KPS seeks to achieve an investment return by successfully turning troubled businesses into profitable and viable companies. As a result, the fund's strategy is to purchase companies at attractive valuations and then implement an operational or financial restructuring at the close of the transaction. Such companies may be operating in bankruptcy or in default of their obligations to creditors.

Special situations include companies that have solid products and markets, but are confronting one or more of the following problems:

- Threat of closure or liquidation
- Operating in financial default or under Chapter 11
- History of recurring losses
- Inappropriate business strategy; operating and/or management problems
- Excessive leverage
- Insufficient liquidity

- Insufficient capital for investment, modernization or growth
- Orphan divisions or subsidiaries of larger companies
- Family-owned businesses put up for sale

KPS's investment strategy is predicated upon a constructive approach to investing in special situations, incorporating, to the extent possible, the involvement of all the company's key stakeholders in the development of a restructuring plan. KPS expects that most investments will involve meaningful participation from a company's employees, both in the restructuring process and in the restructured company. This approach has resulted in the successful restructuring of numerous companies and stands in sharp contrast to the confrontational approach often relied upon by other investors in distressed situations.

So there are alternatives to the slash and burn approach of "Chainsaw Al" Dunlap and his ilk. ▫

Additional Information

For additional information, contact Eugene Keilin, Michael Psaros, or David Shapiro at KPS Special Situations Fund, L.P, 200 Park Avenue, 58th Floor, New York, NY 10166. **Tel:** 212-338-5100 **Fax:** 212-867-7980; **email:** kps@kpsfund.com

Update: Crocus Fund begins to bloom

Over the last four years, *Owners At Work* has followed the development of the Crocus Fund in the Canadian province of Manitoba, just north of North Dakota. The Crocus Fund is one of two dozen labor-sponsored mutual funds which pool the Canadian equivalent of individual retirement accounts (IRAs) for local reinvestment. In addition to the IRA tax deduction, investors receive a 30% tax credit. Crocus has a preference for employee ownership, and it has pioneered Canada's development of deferred profit sharing plans into the equivalent of ESOPs.

Crocus, which is sponsored by the Manitoba Federation of Labor, anchors capital and jobs in Manitoba by investing in small and medium-sized businesses. It primarily provides capital for expansion, but it has also been involved in some start-ups and averting some shutdowns. Crocus uses a number of social criteria to determine where it invests, including good labor relations and good conditions for minorities and women.

As a labor-sponsored investment fund, Crocus proves that ordinary working people can do well financially while doing good for their neighbors by "bringing your investments home," as the Crocus slogan promises. Crocus, which has grown to assets of $90 million in 5 years, supplies four-fifths of Manitoba's venture capital. Crocus beat the Toronto Stock Exchange index average last year with a 13.6% total return versus the TSE total return of 10.1%. And that's before the tax break for Crocus investors is taken into account. With the tax credit for investors included, Crocus has provided an impressive **125% total return** for its original 1993 investors. It's no wonder that *Maclean's Magazine*'s annual Canadian mutual fund survey ranked Crocus as one of the 63 "best in their class" funds among the 1500 Canadian mutual funds.

"Crocus investments have saved 200 jobs which would otherwise have been lost here in the province, and created another 1,500 new jobs," says Sherman Kreiner, the fund's CEO. "That's **direct** job creation," emphasized Kreiner, "and doesn't include the multiplier effect. Furthermore, we've helped maintain an additional 2,100 jobs."

A quarter of these employees have already become owners and another quarter will join them when Crocus cashes its investment out. Crocus uses selling to the employees as a preferred exit strategy.

Crocus's next initiative, currently on the drawing board, is to create a $30 million fund to back development of research-based scientific and high tech companies in Manitoba; Crocus itself will invest $3 million and seek to raise the rest. While that smacks of moving Silicon Valley to North Dakota, Crocus has already done two bio-medical start-ups and has invested in the expansion of an existing pharmaceutical firm and a health care information service firm.

Maybe moving Silicon Valley to North Dakota might not seem so bizarre if North Dakota had its own Crocus Fund. ▫

The Crocus Find was highlighted in the Summer 1995 Issue of Owners At Work *and was also discussed in the Summer 1996 and Summer 1997 issues.*

Will ESOP funds make a difference in Ohio?

On April 29, American Capital Strategies (ACS) completed the buyout of Borden Decor, investing $16 million of its fund into the project. Borden Decor employs 720, including 400 in Columbus at Columbus Coated Fabrics. The new company, Decorative Surfaces International, which will ultimately become majority employee-owned, will be headed by Steve Walko, former CEO of Textileather which was employee-owned from 1991 to 1995. Columbus employees are represented by UNITE. The ACS fund was reviewed in the Winter 1997/98 issue of *Owners At Work*. ▫

Focus on Investment Funds

Creating a Successful Ownership Culture

The backbone of the American economy is the small family-owned business. The responsibility of running such a business on one's own involves a great deal of both stress and time. Often, the owner has no one to trust to take care of the company while going on a much needed vacation. Not only is their time for relaxation severely limited, but they also have to shoulder all of the responsibilities of the firm. The obvious solution is to share responsibility, but it is hard to pay competent employees enough to retain them and employees rarely feel the same sense of responsibility that owners have. Sharing ownership with employees offers the opportunity to involve the workforce in the business with the same sense of responsibility that an owner has.

The GAO's study found that the combination of employee ownership and employee participation yields substantial improvement in firm performance.

Sharing ownership through an Employee Stock Ownership Plan (ESOP) is one of the necessary ingredients to establish a successful ownership culture. However, employee ownership by itself will not increase employee motivation and performance.

This is the conclusion of the U.S. General Accounting Office (GAO) which compared ESOP companies with traditionally owned firms. The GAO's study found that the **combination** of employee ownership and employee participation yields substantial improvement in firm performance. It is precisely this type of genuine employee partnership which can lead your employees to take on some of the responsibility.

According to a U.S. Department of Labor (DOL) study, the high performance workplace provides workers with "incentives, information, skills, and responsibility to make decisions essential for innovation, quality improvement, and rapid response to change." Further, the DOL suggests, high-performance workplaces exist in companies which integrate their business, human resources, and technology strategies and share the following common characteristics:

- *Give workers a stake in the performance of the organization through employee ownership and gainsharing;*
- *Create employment security strategies that recognize the value of workers to long-term economic performance;*
- *Push responsibility down to front-line employees, often by organizing work into self-managing teams;*
- *Provide workers with the information necessary to exercise a high level of autonomy and discretion;*
- *Build worker-management relations on trust, mutual interest, and cooperation;*
- *Focus on satisfying customers, not simply shareholders; on improving quality, not simply reducing costs; and on building organizations that adapt easily to market change;*
- *Encourage workers to learn new skills through skill-based pay and pay-for-performance compensation systems;*
- *Invest in training and retraining to develop workers as critical business assets, rather than treating them as costs to be minimized; and*
- *Provide workers with safe and supportive work environments.*

Though the high-performance workplace concept is cited as an optimal solution, the Department of Labor estimates that currently only 4 percent of U.S. businesses qualify as high-performance workplaces. Interestingly, 25 percent of employee-owned firms in the U.S. have these high-performance characteristics. Overall, employee-owned firms are more likely than traditional firms to provide sufficient incentives, information, skills, and responsibility to their work forces.

Ownership + Participation + Information + Training = Higher Performance

Studies in the states of Ohio and Washington reinforce the federal government's findings. The Ohio Employee Ownership Center (OEOC) at Kent State University surveyed 167 Ohio ESOP companies and found that employee ownership, coupled with participation, education and information, leads to higher financial performance. Equally important, a study in the State of Washington showed that companies which reward employee participation with stock ownership outperform those which only reward participation with profit sharing.

The transformation of workers into owners requires cultivating a genuine sense of ownership where the employees take the responsibility of ownership seriously and their actions contribute to the company's success. This process obviously does not occur overnight. Developing an ownership culture among your employees means seeing that they get what you already have: equity, a say in how things get done, information and training. Employees need to understand company financial reports and develop their decision-making, communication and problem solving skills.

Ownership

Equity makes a big difference. Consider the difference between renting and owning a home. Unlike a person who rents, the home owner has equity in his or her investment and therefore will have an incentive to increase the value of that investment. After all, how many renters do you know that paint the outside of their residence? Just like a homeowner, an employee-owner has a greater incentive to drive the value of stock in his or her company. This could result in reducing scrap, generating creative ideas on how to improve a process, and producing better quality products. This ownership could be in the form of stock options, a cooperative or an Employee Stock Ownership Plan (ESOP). Although rewards like profit-sharing and bonuses are great *supplementary* incentives, they do not provide employees with an ownership stake.

When employees have an ownership interest in their company and are valued for their input, their jobs become more meaningful. Satisfied employees as well as satisfied customers stay with the company longer! As mentioned earlier, ownership is just the first step in creating a successful ownership culture. The remaining ingredients are participation, training and information.

Participation

Motivated employee owners need the opportunity to express their ideas for improving the business to management. Effective communication requires that managers listen, appreciate dissent and tolerate opposition. Likewise, supervisors need to lead rather than order, assist rather than discipline, and teach rather than threaten. It is the responsibility of employees to make suggestions without confrontation, learn basic business concepts, and work cooperatively with others. Open channels for input should be maintained throughout the company. To initiate increased levels of participation, you might consider creating problem solving teams or shop floor committees.

Employee-owners at the 1997 ESOP Association Retreat in Chicago with OEOC staff: Dan Bell, Alex Teodosio and Karen Thomas [Botton: 1st, 6th & 8th from left to right].

Whether your company is employee-owned or not, the goal of participation is maximum feasible employee involvement in all areas of company decision-making, from the shop floor to the boardroom. It is through participation on decision making bodies that your employees can truly accept greater responsibility.

U.S. firms generally spend much less on training and education for employees than their competitors in Japan, Germany, Sweden, and other advanced countries. Most of what U.S. corporations spend goes for management training.

Information

An owner needs access to financial and other strategic information to make sound business decisions. Responsible employees also need access to company information like financial reports, scrap rates, customer satisfaction indicators, and on-time delivery records. Of course, information is only useful if it is communicated effectively. This information can be in the form of regularly published newsletters, annual or quarterly meetings to review business issues, and company financial statements. Of course, employees need to understand the information presented. This requires a long-term commitment to education and training.

Training

U.S. firms generally spend much less on training and education for employees than their competitors in Japan, Germany, Sweden, and other advanced countries. Most of what U.S. corporations spend goes for management training. The American Society for Training and Development confirmed that two-thirds of corporate training monies go into training for those who already have college degrees. If you want to create a successful ownership culture at your firm, just informing employees is not enough. They also need to understand the information they receive in order to be informed and involved owners. Opening your books to employees is meaningless unless your employees understand how to read financial reports. Meetings to improve quality lead nowhere if the participants lack effective meeting skills.

Education is a *process* of learning, and coordinating an effective training program requires a long-term commitment. Training non-managerial employees in problem-solving and group process techniques helps make employee participation programs work successfully.

Getting Started

It is relatively inexpensive and highly cost effective to undertake some combination of employee participation, training, open-book management, and financial incentives to increase company competitiveness. However, family business owners who are seriously considering the establishment of an ownership culture to increase performance may want to begin by examining their own personal philosophical beliefs. They might also want to discuss the challenges and potential rewards with other business owners who have implemented policies to foster an environment that allows employees to think and act like owners. □

Training Resource

The Ohio Employee Ownership Center at Kent State University is a non-profit, university-based program that assists owners in exploring whether employee-ownership makes sense for their particular situation. The Center also coordinates a comprehensive succession planning program in conjunction with the Greater Cleveland Growth Association. All Center staff have been certified as Economic Development Finance Professionals through the National Development Council.

The OEOC provides training that can help your employees increase their understanding of ownership and financial information, and build the problem-solving and communication skills so important to successful employee involvement. For additional information, please call 330-672-3028.

THE OHIO DEPARTMENT OF DEVELOPMENT
Labor Management Cooperation Program

Work Co-sponsored by:

COOPERATIVE CHARITABLE TRUST

OWNERS AT WORK

Volume X, No. 1 **Summer 1998**

IN THIS ISSUE:

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Printed on recycled paper

OEOC
Ohio Employee Ownership Center

UPCOMING 1998 NETWORK EVENTS

July 23, Dayton, OH — **Participation & Communication Forum**
Can Employee Owners Manage Safety?

August 20, Columbus, OH — **Financial Terminology & Financial Analysis Workshops**

September 17, Dayton, OH — **ESOP Administration Forum**
Amending Your ESOP Plan

October 15 - 17, Atwood Resort *(Dellroy, OH, South of Canton)* — **Employee Owner Retreat**

October 29, Kent, OH — **Network Annual Meeting**
CEO & Human Resources Roundtables

November 19, Kent, OH — **Advanced ESOP Issues Workshop**

April 9, 1999, Akron, OH — **13th Annual Employee-Ownership Conference**

13th Annual
Conference
OEOC
Employee Ownership
April 9th - Akron West Hilton

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

OTHER EVENTS

July 31 - Aug. 2, Chicago, IL — **The ESOP Association**
Employee Owner Retreat
For more information, see page 6

Sept. 10 - Nov. 13, Kent, OH — **Ohio Development Association**
Regional Economic Development Course
Nine Weeks to a Better Community
Call Cricket Park at 614-771-2733

Sept. 14 - 16, Mohican Resort *(Loudonville, OH)* — **Ohio Labor/Management Conference**
Call Karen Conrad at 1-800-848-1300

October 6, Columbus, OH — **Ohio ESOP Association Fall Conference**
Call Karrie Imbrogno at 440-989-1552

Oct. 19 - 20, Columbus, OH — **Ohio Development Association**
19th Annual Meeting & Fall Conference

Preliminary Feasibility Grants

The Ohio Employee Ownership Center (OEOC) administers the Ohio Bureau of Employment Services' (OBES) preliminary feasibility grant program. This program is designed to provide financial assistance for employees who are interested in contracting a study to explore employee-ownership as a means to avert a facility shut down.

For more information, please contact Alex Teodosio at 330-672-3028 or ateodosi@kent.edu.

visit our website at www.kent.edu/oeoc