

OWNERS @ WORK

the ONLINE magazine of the
Ohio Employee Ownership Center

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Employee Ownership in Ohio



Palmer Donavin One of the Best Places to Work

Robin Industries Defines ESOP Month Celebrations

Sea-Land Chemical's Successful Culture

CTL Engineering, Messer Construction Celebrate Anniversaries

Suburban Manufacturing, Hy-Tek Materials Grow with Employee Ownership

Also in this issue:

Redeeming or Recycling ESOP Shares

Do Your ESOP Participation Requirements Reinforce Your Culture?

OWNERS AT WORK

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

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Editor's Note

As we kick off a New Year, the OEOC looks forward to another year of growing employee ownership!

In this issue of OAW we highlight a number of great Ohio-based employee-owned companies and the good things they are doing (check out the Ohio Employee Ownership News for more). As always, if you have something exciting happening in your company and would like our readers to know about it, send us your news and we will get it in our next issues.

We also have a couple of excellent articles from two premier practitioners in the ESOP world: first Judy Kornfeld provides a primer on whether to redeem or recycle ESOP shares; and Jim Bado analyzes whether your ESOP participation requirements actually promote the culture you are looking for in your company. Also, in a slight departure for OAW, we interview videographer David Sullivan on a few tips on utilizing video as part of your internal, and external, communications.

Finally, we reprint a newsletter article from one of the best ESOP companies in NE Ohio, Sea-Land Chemical, that provides a window on how good ESOP cultures are created. Directly following the story we interview the author. We hope you enjoy it.

We always appreciate hearing from our readers, so if you have any comments or questions about the newsletter, please drop us a line at oeoc@kent.edu. And, we hope to see all of you at the 30th Annual Ohio Employee Ownership Conference in Akron Ohio on April 29th, 2016!!

- Chris Cooper

Ohio Employee Ownership News

Editor's Note: Towards the end of 2015, we asked Ohio's employee owners to let us know what great things were going on in their companies. The following stories are what we received. We thank each of the companies for their contribution to this issue of OAW. If you would like to highlight the "goings on" at your company in future issues of OAW, send your story to oeoc@kent.edu.

Palmer-Donavin Recognized as One of Central Ohio's Best Places to Work in 2015

Out of a record 235 nominees, employee-owned Palmer-Donavin was selected as a finalist for the Columbus Business First 2015 Best Places to Work in Central Ohio award.

To qualify for the region's longest-running awards program honoring great places to work, any employee can nominate their company provided it has a Central Ohio office with at least 10 full-time employees. A third party surveys those employees and winners are determined exclusively on the basis of their employees' responses to the survey questions as well as the overall percentage of employees that respond.

The program recognizes employers in five categories: Extra Large (250+), Large (100-249), Medium (50-99), Small (25-49), Micro (10-24). Ten finalists were selected for each group and, with roughly 180 employees in Central Ohio, Palmer-Donavin fell in the category for large employers. As first-time nominees, Palmer-Donavin was very excited to not only be recognized but to qualify as a finalist.

When asked why they thought

Palmer-Donavin was a great place to work, employees shared these thoughts:

"Since working for this company I have built strong relationships with co-workers, and leaders. I feel blessed to work for a company that treats you well, encourages development, and makes you feel like family."

"Palmer-Donavin is a fantastic company with the right culture for success. I'm very excited that I'm part of the team, and I look forward to working very hard at helping the company and my co-workers succeed in the future."

"Great company with a substantial amount of growth in the coming years. Company goals and objectives are clearly defined. Leadership treats employees with respect. Being employed with Palmer Donavin means you'll feel part of a team with company success and growth as the central focus."

At the exciting awards luncheon on Thursday, November 12 at the Hilton Columbus Downtown, Palmer-Donavin won 9th Place in their category. When accepting their award, each company was asked to share 10 words about why their company was a great place to work. Summing it up in just 10 words was difficult, but "Palmer-Donavin is employee-owned, family-focused, collaborative, and successful."

On receiving the award, Palmer-Donavin President and CEO, Ron Calhoun, said, "The products and services that Palmer-Donavin offers are not protected by patents or exclusivity. What we offer our customers and vendors can also be found through many other sources. It is our people that truly make the difference, which is why we are extremely proud of being honored as one of the best places to work in Central Ohio."

Kudos to fellow employee-owned company, Mills James, who ranked



The Palmer-Donavin team accepting their award at Columbus Business First's 11th annual Best Places to Work awards program on November 12. Above, from left to right: Don DePerro, President and Publisher, Columbus Business First; Matt Butzier, Vice President Palmer-Donavin Building Materials; Eric Zechman, IT Director; Bina Smith, HR Recruiter; Amber Haycook, Staff Accountant; John Speelman, Purchasing Agent; Joe Weaver, Regional Sales Manager; Josh Thompson, Regional Sales Manager; Nate Reynolds, HR Generalist.

Right: Each team member was given the opportunity to share a word from their 10-word speech: "Palmer-Donavin is employee-owned, family-focused, collaborative, and successful." (photos courtesy of Palmer-Donavin.)



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8th in the same category. Just another example of how employee-ownership makes an impact on employee satisfaction. (Story courtesy of Palmer-Donavin)

Robin Industries Celebrated ESOP Month With a Bang

The employee owners at Robin Industries Inc. had a great time with their October Employee Ownership Month activities - Their ESOP Communications Committee decided they would do something each week of the month to celebrate their ESOP and build awareness among its employee owners.

The festivities were kicked off with an ESOP flag raising ceremony at each of the company's four plants in Ohio. The first week a slogan contest was created in which employees were challenged to come up with an ESOP slogan to be printed on a shirt. A prize of \$50 went to the winner, and all employee owners received a t-shirt.

In week two, the ESOP Committee created a five-question "scavenger hunt" in which employee owners were tasked with uncovering the answers to both ESOP and company questions,

including: "who is the person in each plant with the longest tenure." respondents were entered in a drawing for \$25, and everyone who participated learned interesting facts about the ESOP, the company, and each other.

Robin Industries wants each employee owner to be aware of how ESOP rewards are connected to how their work is done. For this reason, in week three a "Play Like a Champion" contest was held. Committee members asked everyone to keep their eyes open for anyone "acting like an owner" -- which is called in the company "Playing like a Champion." The winning nominee received \$50 with the person who nominated them receiving \$25.

The company ended the month with a poster contest in which employee owners were asked to "put their creativity to work." Not only were new tools created to help celebrate the ESOP, the contest invited and encouraged employee owners to get involved. Winners were recognized with a \$50 prize for the first place and \$25 each for 2 runners up.

It can safely be reported that everyone had a great time and the ESOP Communications Committee deemed

this a success in spreading the positive word of employee ownership throughout the company. (Story courtesy of Robin Industries)

Hy-Tek Uses Employee Ownership To Grow

Founded in 1963, Hy-Tek Material Handling, Inc. is a single-source provider of material handling solutions for an extensive range of industries including manufacturing, distribution, retail, pharmaceutical, food, electronics, and automotive. Since opening its doors for business 52 years ago, Hy-Tek and their industry partners -- including manufacturers of industrial trucks and equipment; conveyors, rack, and shelving -- have been providing customers large and small with turnkey solutions.

An ESOP since 2007, Hy-Tek is 75% owned by its employees with the remaining one-quarter retained by CEO Sam Grooms. Because every employee is economically and philosophically invested in Hy-Tek's success, customer satisfaction is always top-of-mind. A companywide commitment to exceeding customer expectations has served Hy-Tek very well.

The company serves customers in the United States, Canada, and Mexico from offices in Atlanta, Cincinnati, Cleveland, Indianapolis, New Jersey, and Philadelphia. Headquarters are located in a 55,000-square-foot showroom in Columbus, Ohio, which doubles as a parts and service facility and houses most of the company's construction equipment and industrial trucks. Hy-Tek's four divisions -- Integrated Systems, Mobile Equipment, Lighting Solutions, and Storage & Handling -- deliver cost-effective, efficient solutions for every material handling application.

Hy-Tek ESOP... In the Beginning

As with the inception of many ESOPs, Hy-Tek chose this path at a point when two company shareholders were set to retire. One of the major selling shareholders chose the 1042 election so Hy-Tek had to initially convert from an S-Corp to a C-Corp for the first five years. During this period, aggressive contributions and the ESOP sheltered nearly all of the income that

Employee owners from Robin Industries model the winning t-shirt design. (photo courtesy of Robin Industries.)



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would have otherwise been subject to income tax. This law enabled the company to rebuild its balance sheet more rapidly because the tax deductible ESOP contributions were returned by the trust and subsequently sent to the bank as payments on the loan. The ESOP was proving to be an engine for financial growth for Hy-Tek in addition to providing a valuable retirement program for all of the participants.

Hy-Tek ESOP... In the Present

Hy-Tek's enterprise and stock value has continued to increase year after year since becoming an ESOP. The growth in value has also been a powerful recruiting tool for new hires and acquisitions. Once the shares had been earned by the trust, Hy-Tek amended the original ESOP plan to annually rebalance shares of stock and other investments so all participants would have an equal proportion of both. Given the appeal that the stock holds with owner employees, Hy-Tek did not

want to create a scenario where long term employees held more shares than new employees. As a result, all Hy-Tek employee owners reap the benefits of the ESOP.

Sound managerial discipline from the start has resulted in positive financial growth for the corporation and excellent benefits for all participants. Hy-Tek has a strong record of annual contributions to the trust to ensure they are years ahead of the repurchase obligation. The excess cash in the trust is managed by Highland Consulting and invested in balance funds designed to earn a six percent return on an annual basis. The funds are held by TD Ameritrade and rebalanced on a quarterly basis. In addition to receiving an annual allocation summary, Hy-Tek ESOP employees are also informed about the ongoing growth and strength of the corporation and the trust in quarterly meetings.

Hy-Tek maintains an ESOP committee with representatives from all

of its business divisions. Representatives attend informative biannual ESOP meetings, then distribute relevant information to the employees at large. A written summary is also generated from these meetings so that the employees can review and ask questions as needed. To improve understanding of the annual allocation summary, a sample Year End Statement with descriptive boxes was created to educate employees. The statement illustrated where the money was added to their statements, return on investment and what items collectively

make up the total value of their shareholdings.

Hy-Tek ESOP... In the Future

The Employee Stock Ownership Plan has been a valuable tool for Hy-Tek and its employee owners. There is no question the ESOP has helped Hy-Tek retain valuable staff and attract talented employees. In the nine years since Hy-Tek has been an ESOP, revenue and income has increased over two hundred percent. This increase in growth far outpaces any other nine year period in the company's forty four year pre-ESOP history. The overwhelming belief of the company is that the benefits of an ESOP have been a major contributor to the company's financial growth and strength and will continue to do so in the future. *(story courtesy of Hy-Tek Material Handling)*

Messer Construction Celebrates 25 Years of Employee Ownership

Messer Construction Co. this year is celebrating 25 years of employee-ownership. In 1990, 99 employees purchased the small, family-owned construction company, which operated out of Cincinnati. Today, more than 1,000 Messer employee-owners operate out of nine cities throughout the Midwest and Southeast. Last year, the company notched more than \$1 billion in revenue for the first time in its 82-year history, and that number is expected to rise again this year. Community service, which has always been a central theme at Messer, was also stronger than ever this year, as the company and its employee-owners together donated more than \$1.7 million and countless volunteer hours to community organizations.

Founded in 1932, Messer is a construction manager and general contractor that specializes in complex commercial construction. Today it is one of the nation's leading health care and higher education builders, and boasts extensive, award-winning work in the life sciences and industrial market segments.

The Cincinnati Enquirer recently recognized Messer Chairman Emeritus Pete Strange with its 2015 Carl H.



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Lindner Award for Entrepreneurial and Civic Spirit. The award is a nod to Strange's 20 years of leadership as Messer's CEO (1990-2010), where he helped drive the adoption of the ESOP and grow the company to new heights. Featured prominently on the Enquirer's official announcement is a saying Strange made famous at Messer: "Employment without ownership is work. Employment with ownership is opportunity." (story courtesy of Messer Construction)

Suburban Manufacturing Celebrates 10 Years of Employee Ownership

Suburban Manufacturing Co. Inc., based in Eastlake, Ohio has been in the manufacturing industry for over 30 years. Suburban is a precision machine shop utilizing the latest technologies, from their 9 axis mill turning machine to robots to their flexible manufactur-

ing systems and is currently adding approximately 16,000 additional square feet of manufacturing space. Just as important, in 2015 Suburban celebrated their 10 year ESOP Anniversary.

Suburban is also a multiple recipient of the prestigious WeatherHead 100 Award, the Lake and Geauga County Fast Track 50 Award as well as the Crain's Top 52 Award. They recently acquired AS9100 certification to add to their previously earned ISO 9001 quality system certification; and Suburban is ITAR approved.

Being employee owned has promoted an atmosphere where the highly trained individual employee owners are motivated to provide the highest quality products available. They have also put in place an Apprenticeship Program through the State of Ohio that helps encourage young people to pursue careers in manufacturing, an issue that is affecting many manufacturers

in Ohio and around the country. Suburban also participates in the youth robotic program in Lake County, sponsored by the AWT, and speaks at area middle and high schools encouraging manufacturing careers. Suburban team members give back through the American Cancer Society Relay For Life and the Wounded Warrior Project. (story courtesy of Suburban Manufacturing)

CTL Celebrates 25 Years of Employee Ownership

It's so fitting that October is National ESOP Month, as it also commemorates CTL Engineering's 25th anniversary of being employee-owned.

The CTL family celebrated the anniversary at the Horseshoe Casino in Cincinnati, an event planned and organized by Jessica Donley and Becky Carroll (the ESOP Fun Czars), and employees from every CTL office attended, including India! It was agreed

Join Ohio's Employee-Owned Network!

Ohio's Employee-Owned Network's mission is to provide a forum for employee-owned businesses and others to learn from each other how to make employee ownership work more effectively at your companies; and to address the unique challenges and potential of employee ownership.

Network members jointly-sponsor a year-round series of education and networking events. Members enjoy group rates and discounts on program registrations; and non-members among the employee-owned business community are welcome to participate in most of the Network's programs.

Other benefits of Network membership include: consultation with OEOC staffers, at no additional fee, on ESOP-related issues and challenges; and discounts on in-company education and training programs.

Interested? contact Chris Cooper at ccooper1@kent.edu or 330-672-0338 or log on to <http://www.oockent.org/resources-events/network-overview/>



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by all that the 25th Anniversary Event was a huge success.

The evening began with a cocktail hour/scavenger hunt to seek out co-workers from another state, as well as different lengths of employment. Guests enjoyed fabulous food provided by the Horseshoe Casino. Five CTL employees showed their talent by leading a company-wide sing-a-long, while CTL Managers entertained the assembled employee owners with their skillful moves to the music of YMCA, spelling out the letters E.S.O.P.

The Cincinnati Circus provided jugglers and a mentalist, whose performance was outstanding, almost leaving Bipender Jindal with \$100 less in his wallet. Tim Jochim spoke about his 25 years as CTL's ESOP attorney, followed by Michael Keeling, the President of the ESOP Association. Michael reminded the assembled owners of the advantages of being employee-owned, for our country, our community, CTL, and for each employee owner. Before the evening ended, CTL president, CK Satyapriya spoke, and introduced each member of his family; in addition he

also named the Columbus Environmental Department, headed up by Bipender Jindal, as the most profitable group for 2014, as well as the most improved department for a second year in a row.

Everyone at the company would also like to give a big shout out to CTL Engineering's CFO, Ali Jamshidi, who is being recognized by the National ESOP Association for serving four years as an Executive Committee Member of the State and Regional Chapter Council. *(story courtesy of CTL Engineering) OAW*

Log on to www.oeockent.org for conference photos, keynote speaker videos, presentations from panels, and more from the 29th Annual Ohio Employee Ownership Conference!

Mark your calendars for April 29th 2016 for the
30th Annual Ohio Employee Ownership Conference

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Robert Beyster Papers on SAIC and Employee Ownership Find Home at UCSD

The Foundation for Enterprise Development (FED) recently announced that the University of California San Diego has agreed to add the J.R. Beyster Papers to its Special Collections and Archives, and will be available to educators, researchers, and the public interested in understanding his legacy and work in the field of employee ownership.

The J.R. Beyster papers consist of more than fifty years of documents demonstrating the vision, entrepreneurship, and nationally important innovations of Dr. Beyster and the company he founded, Science Applications International Corporation (SAIC).

Mary Ann Beyster, President of the foundation stated that, "We are pleased to announce that we have embarked on the year-long processing of these papers, and are excited about what we have found already!"

The collection will be available at the Special Collections & Archives at UC San Diego Library starting in 2017. More information and updates on progress with cataloguing the papers can be found at <http://www.fed.org>.



Processing has begun! [Top right photo, from left:] Mary Ann Beyster (FED), Bianca Helm (FED), Kim Schwenk (Archivist), Laurel Dougherty (UCSD), Lynda Claassen (UCSD); The collection has many treasures, including Dr. Beyster's original notebooks from his UMich days, and there is a lot of good material to process. (photos courtesy of the Beyster family).

OEOC Collaborating on New Study of State Employee or Worker Cooperative Statutes

Carolyn Boyce, a native of Northeast Ohio and a current student in Cornell University's Industrial and Labor Relations, worked with the OEOC in completing an in-depth study on the states that have specific employee or worker-owned cooperative statutes (these types of cooperatives are commonly referred to as employee-owned, worker-owned or worker cooperatives; in this article they will all be referred to as a worker cooperative rather than the multiple descriptive names).

Unlike other forms of cooperative entities (agricultural, rural electric and credit unions) that have uniform statutes across the various states, the opportunity to form a worker cooperative varies greatly across the nation and is available in a distinct minor-

ity of states. There is a growing interest in the use of a worker cooperatives as an operating business model.

With the growing interest in this model, it is important to identify the potential states where a worker cooperative could be formed as part of a private business conversion where the existing owner(s) is retiring and leaving the operation. The conversion of the business ownership to a worker cooperative is an effective method in retaining a local business and maintaining the legacy of the business owner(s).

Ms. Boyce has completed a review of various state cooperative laws to identify the states (11) that had specific legal statutes that allowed for the formation of worker cooperatives. The OEOC worked with Ms. Boyce in developing and contacting appropriate contacts (attorneys and cooperative developers) who have used

such or are familiar with local statutes in incorporating worker cooperatives to determine the ease of a business operating under such a model in each specific state. She also wanted to consider the possibility that a business could incorporate in a state where it is not physically located in order to operate as a worker cooperative. This study was meant to provide a starting point for further investigation into the various state statutes "desirability or flexibility" in incorporating worker cooperatives that meets the needs of the owners.

Specific questions addressed in Ms. Boyce's study include: Can a foreign worker cooperative do business in the state using the word cooperative in its name? Can a foreign worker cooperative merge or consolidate with a domestic worker cooperative? Can a conventional corporation be converted to a cooperative and vice versa? Are

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the state's laws favorable for hybrid cooperatives? Does the state require worker cooperatives to redeem retiring members' shares within a specific time period? Does the state have an SEC 701-type exemption for worker cooperatives?

The current study does not review states that had broader or flexible cooperative statutes that would allow for the formation of worker or hybrid cooperatives that could meet desired ownership structures. Colorado is such a state. The OEOC is compiling additional information on these other states and will have an expanded report completed in the summer of 2016.

OEOC Completing Employee Ownership Impact on Rural Communities Report

As part of its USDA Grant activity, the OEOC has visited several rural businesses in the Northeast, Midwest and Southwest United States. These

businesses consisted of manufactures, retailers, professional services providers, financial institutions, recyclers, personal service providers, and wholesale distributors, with employment ranging from less than a dozen to several hundred in each company.

Despite the variety there is a common denominator among the companies, employee ownership. The forms of employee ownership utilized include Employee Stock Ownership Plans (ESOPs), employee-owned cooperatives, and direct share ownership.

The purpose of this study is to build awareness of the various employee ownership options in the rural community. With the "Baby-Boomer Generation" quickly approaching retirement, many businesses will have a change in ownership. When a small business owner decides it's time to retire and exit from their business the traditional option of transferring the business to children is sometimes not available. Consequently, the small

business owner may look to sell to an outside party. In a large percentage of these types of transfers, the company is consolidated into an existing (or separate) enterprise resulting in the local business being shuttered.

With the closure of these "pillar of the community" businesses, the effect on smaller rural communities can be profound. Jobs are lost, economic activity decreases, and the tax base for important public services shrinks. A key part of the solution to this crisis is highlighting successful alternative strategies (like employee-owned businesses, cooperatives or ESOPs)

and educating business owners, and other relevant stakeholders, on how to utilize them in their succession plan. If a business owner is not aware of a viable option to sell to his or her employees, many of these businesses will leave the local community.

Some of the initial findings of the study include:

1. The employee owned businesses in rural communities appear to be very involved in their community activities. This ranges from support of community arts programs to sponsorship of 4-H and youth sports activities.

2. Many of the transfers of existing privately held businesses to employee ownership were made in the case where the selling owner wanted to maintain the enterprise and they did not have a next generation family member in line to take over the business.

3. Several of these businesses would likely have faced closure of the local operations if the transfer to the employees was not completed, as the potential external buyers were located well outside of the local communities.

As noted earlier, the goal of this study is to build awareness of the option for employee ownership as a succession plan for the rural business owner. The study will tell the story of several businesses learning of this option and choosing to sell the operation to the employees and retain the business in the local community. Given the variety of employee owned businesses in various industries and geographic sectors covered under the study, more business owners have the opportunity to see that a company "like mine" has successfully transitioned or operated under employee ownership, increasing the likelihood that business owners will give this exit strategy consideration.

We intend to have this study distributed to the centers of influence ("COIs") for rural business owners (accountants, attorneys, bankers, etc.) to inform them of the option to transfer the businesses to the employees. Prop-



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erly informed COIs can provide critical guidance to business owners in the process of transitioning ownership to the employees. The study will be completed and published later this year.

OEOC's Cooperative Development Center Working with Fish Farmers in East Central Ohio

The OEOC's Cooperative Development Center was awarded a USDA Rural Business Development Grant to study the potential of organizing a cooperative for fish farmers in East Central Ohio. This group of farmers approached the OEOC and the Small Business Development Center at Kent State University Tuscarawas in early 2015 to seek assistance in addressing concerns facing their industry. The OEOC and the Small Business Development Center have been working with the fish farmers to develop a cooperative that could provide possible solutions to specific issues. The OEOC

and other partners hosted a meeting in June of 2015 at the Kent State University Tuscarawas Campus that brought together area fish farmers to assess the general interest in developing a cooperative to help accomplish their individual goals. The farmers and other industry supporters voiced their support of the concept. After its initial review and findings, the OEOC pursued the USDA Rural Business Development Grant opportunity to fund a feasibility study and business planning for the cooperative. The awarded grant will provide funding to the OEOC for its time, travel and other necessary resources required to complete the work on this project.

The feasibility study hopes to determine if a cooperative for the fish farmers could successfully establish best practices in raising fish, help reduce the high cost of fish feed, and improve quality control of the live fish sent to market. If the project is found to be feasible, the OEOC will move forward with assisting the group with a more in-depth business planning process that will outline how the business might be structured, governed and operated. The feasibility study process is expected to be completed by the end of January 2016. We are encouraged with the findings to date and are in the process of planning a public meeting in late February to highlight the findings of the study. Assuming that the study finds further work is warranted, the business planning process will begin the following month. The business planning process is expected to be completed in the fall of 2016.

OEOC Hosts a Visiting Scholar from China

Niu Zhengke, an Associate Researcher from the China Academy of Social Science in Beijing, is a Visiting Scholar at Kent State University and is being hosted by the OEOC. Niu, an accountant by training and practice, will be spending his time at Kent State and in the United States studying ESOPs and employee ownership in the US framework.

His research focus will be in learning about the legal and operational

development of ESOPs in the United States, and how that might provide a framework for economic development in China. Over the last thirty years, China's "state-run" businesses were "reformed," allowing for other forms of business ownership, but an ESOP form of ownership does not currently exist.

Businesses in China face similar challenges to those in our country, such as operating issues like maintaining quality and productivity, and ownership issues like business owner retirement (given the above mentioned reform). He hopes to determine if ESOPs, or a similar ownership structure, could mitigate some of these issues.

He should conclude his formal study of ESOPs (familiarizing himself via reading ESOP material, viewing webinars, etc.) this spring and intends to reach out to the ESOP community in the U.S. to obtain more individualized experience of ESOP operations. The OEOC will be reaching out to the ESOP business community later this year to introduce Niu to several of you who may be able to provide assistance with "ESOP company level" stories that could aid his research. Feel free to contact our center if you would like to learn more about his research or share an ESOP story/experience.

New Book on Responsible Investing

Heartland Capital Strategies has announced that they will be publishing an updated guide, *The New Responsible Investor Guidebook* in May of 2016. Heartland describes the book as a "how-to manual" for individuals and organizations to invest their dollars in responsible funds and instruments.

The book is co-authored by Tom Croft, Director of Heartland Capital Strategies, and Annie Malhotra, CFA, a finance professional with an impact investment background, and was commissioned by the AFL-CIO. More information on the book can be found at <http://www.heartlandnetwork.org>. Look for a review in a future issue of OAW! OAW

Niu Zhengke, OEOC's visiting scholar.



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To Redeem or Recycle, That Is the Question

by
Judith Kornfeld, ESOP Economics

One of the most frequently asked questions about ESOP repurchase obligations is “Should we recycle shares, or is it better to redeem them?” This whitepaper will explore both strategies and explain why it is a myth that it is always less expensive to handle repurchase obligations by redeeming shares.



Background

An ESOP is a qualified retirement plan under ERISA that is intended to invest primarily in stock of the employer company. A distribution from the ESOP is made after a participant terminates employment or exercises certain diversification rights. Under Section 409(h) of the Internal Revenue Code (IRC), if the stock is not publicly traded, ESOP participants have a right to “put” their shares to the company when they receive a distribution. The company is then obligated to buy the shares back from the participant at fair market value as determined by an independent appraiser. This obligation is commonly referred to as the ESOP repurchase obligation. A forecast of future obligations, taking into account actuarial and financial assumptions and ESOP distribution rules, is called a “repurchase obligation study” and is considered an important planning tool for companies that sponsor ESOPs.

When a distribution from the ESOP is required, there are two different ways the company can handle it. One way, called “recycling” is to have the shares repurchased within the ESOP, using cash that is in the ESOP trust from current or past contributions, dividends or earnings distributions. The second way, called “redeeming” is to distribute the shares to the participant and have the company buy them back. Each has different consequences, advantages and disadvantages, and it is possible (and sometimes desirable) to use a combination of both.

Recycling

Recycling requires that there be cash in the plan. Cash can be from current contributions, dividends, or earnings distributions, or from balances that have accumulated from those sources in prior years. All cash balances in an ESOP are allocated to participants; they cannot be held in an unallocated or reserve account.

When shares are to be recycled, the ESOP trustee takes cash from the accounts in the plan, pro rata to account balances, and uses it to buy shares from the accounts of participants receiving distributions. The ESOP trustee is then able to pay the distributions in cash, and the shares are reallocated (or “recycled”) to the participants from whose accounts the cash was taken.

Recycling works well when the contributions for repurchase obligations align with the benefit levels the company wants to provide. However, even if the repurchase obligations vary from year to year, the company can make regular contributions at its desired benefit level; in years when the contributions are higher than current repurchase obligations, some cash balances will accumulate that can be used as needed in future years.

Challenges arise when repurchase obligations are consistently higher than the desired benefit level. This frequently occurs in companies where the ESOP has a high ownership percentage, or where the value of the stock held by the ESOP is high compared to covered compensation. The company then has several choices about how to meet the excess repurchase obligations:

- **Make additional contributions above the targeted benefit level**
 - Some financial advisors recommend that contributions be limited to an “appropriate” level (based on factors such as industry and geography) to avoid overcompensating employees, which can negatively affect share value.
- Contributions cannot exceed the IRC limit, which is generally 25% of the compensation of eligible participants. In situations where repurchase obligations are higher, alternative funding strategies are needed.
- **Pay dividends or S corporation earnings distributions**
 - Dividends and S corporation earnings distributions are not subject to the IRC contribution limit and do not count toward the annual additions limitation on individual participant accounts, so they are useful when contributions exceed the IRC limit.
 - Unlike contributions, which are typically allocated pro rata to compensation, dividends and S corporation earnings distributions are allocated pro rata to shares. They represent a return on investment rather than a benefit contribution. If used to fund repurchase obligations, they tend to cause concentration of shares in the accounts of participants with the highest account balances, potentially leading to a “have and have-not” situation.
- **Redeem shares**
 - If repurchase obligations exceed the targeted benefit level, the excess amount can be handled through redemptions.

The mechanics and consequences of redemptions are discussed below.

Redeeming

As an alternative to recycling, repurchase obligations can be handled through redemptions.

In a redeeming strategy, the trustee distributes shares of stock to the participant, who can then exercise the “put” right by selling the shares back to the company. The company pays for the shares out of current cash flow or from its cash or investment reserves. In either event, the cost of the redemption is not deductible, as it is a transaction in the company’s own stock.

After the company repurchases the shares, they can be retired, held in treasury, or reissued. If reissued, they can be contributed to the ESOP to create a current benefit at the targeted benefit level, which would be similar to recycling. Alternatively, they can be sold to other shareholders or issued as part of a non-qualified equity compensation plan.

If they are not reissued, the company will have a declining number of shares outstanding. If the ESOP owns less than 100% of the company, redemptions will shift some ownership to the non-ESOP shareholders. There are situations where this may be desired and is done purposely. However, if an ESOP owns a majority position but less than 100% of the company’s stock, the trustee should be cognizant of a potential loss of control.

Redeeming shares at fair market value does not have any immediate effect on value per share, as equity value and number of shares outstanding are reduced in the same proportion. However, over time, redemptions will cause value per share to grow more rapidly than the equity value of the company, because equity value is being divided by a declining number of shares outstanding. This can create a disconnect between actual and perceived corporate performance, if changes in value per share are used as the measure. It may also affect the value of synthetic equity interests like phantom stock, stock appreciation rights, and warrants.

A common myth is that redeeming reduces repurchase obligations because of the declining number of shares in the ESOP. However, the reduction in the number of shares to be repurchased in the future will be largely offset by increases in value per share that result from the declining number of shares outstanding.

If a company consistently handles repurchase obligations through redemptions and does not recontribute at least some of the shares, a “have and have-not” situation is likely to evolve, where long-term participants hold the preponderance of the stock and newer participants have significantly fewer shares. Disparities in account balances will be further magnified as value per share rises.

An often-overlooked aspect of handling repurchase obligations through redemptions is a potential tax benefit for the participant receiving a distribution. If the entire stock account is distributed in a lump sum, the participant may qualify for capital gains treatment on the unrealized appreciation in the value of the stock, which may offer a significant tax savings for participants with large account balances. By contrast, a distribution in cash is taxed at ordinary income tax rates.

Quick Comparison of Recycling and Redeeming

Recycling	Redeeming
Provides an ongoing benefit and promotes sustainability of the ESOP by helping to avoid “have and have-not” issues.	No addition to participants’ accounts, leading to potential “have and have-not” situation.
Maintains the ESOP’s proportionate ownership, which is relevant in companies where the ESOP owns less than 100% of the company.	In a <100% ESOP, will cause the ESOP’s ownership percentage to decline.
Simplifies ESOP administration and distributions, especially in S corporations that have limitations on the number of shareholders.	May cause share value to rise more rapidly than equity value, potentially causing communication issues and affecting synthetic equity plans.
Contributions (as compared to dividends, earnings distributions or redemptions) affect the company’s income statement and are deductible for tax purposes.	Cost of redemptions does not affect the company’s income statement because they are paid with after-tax dollars.

Conclusion

Recycling and redeeming each have different consequences and can both be useful in achieving a company’s goals for its ESOP. Many companies use a combination of repurchase methods, combining contributions and earnings distributions to recycle shares, and making judicious use of redemptions to manage benefit levels. Combined with releveraging, which is not covered in this whitepaper, these methods can be used to effectively manage an ESOP for long-term sustainability.

The key to developing a repurchase strategy is to be clear about what you are trying to accomplish about factors such as the ESOP’s ownership level, and the benefit levels for participants. Then do a repurchase obligation study that forecasts the results of each strategy you are considering. A well-prepared repurchase obligation study that considers all of the relevant variables can help you quantify the cost, the resulting benefits for participants, and the effect on ESOP ownership, so you can make an educated decision about what combination of redeeming and recycling is best for your company. **OAW**

Mark Your Calendars for the 30th Annual Ohio Employee Ownership Conference

Join us for the 2016 Annual Ohio Employee Ownership Conference as we celebrate 30 years of the premier education and networking event on employee ownership!

Date: April 29th 2016

Location: Akron Fairlawn Hilton, Fairlawn OH

“Celebrating 3 Decades of Success: Growing the Employee Ownership Future”



Keynote Speaker

J. Michael Keeling

President and Chief Staff Officer, The ESOP Association

Preliminary Agenda

Thursday April 28th - Pre-Conference Events

Employee Owner Workshop 10 am-5pm

- ABCs of ESOPs
- Understanding Business
- The ESOP Game

CEO/CFO/ESOP Leader Roundtable 3pm-5pm

Cooperative Business Boot Camp 9 am-5pm

Conference Opening Reception 5 pm-9 pm

- Networking
- Short Film Festival

Friday April 29th - 30th Annual Ohio Employee Ownership Conference

8:00-9:00 AM	REGISTRATION & CONTINENTAL BREAKFAST
9:00-10:00	WELCOME, INTRODUCTORY COMMENTS & MORNING KEYNOTE
10:00-10:15	MORNING NETWORKING BREAK
10:15-11:45	BREAKOUT SESSIONS – I
11:45-1:15 PM	LUNCH & 2016 EMPLOYEE OWNERSHIP AWARDS
1:15-1:30	NETWORKING BREAK
1:30-3:00	BREAKOUT SESSIONS – II
3:00-3:20	AFTERNOON NETWORKING BREAK
3:20-4:50	BREAKOUT SESSIONS – III
4:50-6:00	CONFERENCE CLOSING RECEPTION

Log on to <http://www.oeockent.org/30th-annual-ohio-employee-ownership-conference/> for more information

Upcoming Ohio's Employee Owned Network Events

UPCOMING WEBINARS

- ABCs of ESOPs for Participants – January 27th 10am EST – Presented by Phil DeDominicis, The Menke Group
- Selling Your Business To Your Employees via an ESOP – February 10th 10am EST – Presented by Phil DeDominicis, The Menke Group
- Demystifying ESOP Benefit Distributions – February 17th 10am EST - – Presented by Pete Shuler, Crowe Horwath
- Does Your ESOP Plan Support Your Business Plan? – March 9th 10am EST - – Presented by David Johanson, Hawkins Parnell Thackston & Young
- Keys for a Successful Employee Ownership Culture – April 6th 10am EST – Presented by Jim Bado, Workplace Development
- How the ESOP Fits in Your Overall Benefits Package – May 11th 10am EST - – Presented by David Johanson, Hawkins Parnell Thackston & Young
- Motivating Your Employee Owners: How to get the best from your people – May 25th 10am EST – Presented by Martin Staubus, Beyster Institute
- Dot Your I's and Cross Your T's: Legal Considerations for an ESOP Acquiring Another Company – June 15th 10am EST – Presented by Jim Steiker, SES Advisors, Inc.
- New Trends with S Corporation ESOPs – July 13th 10am EST – Presented by Dave Gustafson, Apple Growth Partners
- Funding an Acquisition With Your ESOP – July 27th 10am EST – Presented by Jim Steiker, SES Advisors, Inc.

Cost: Free for participants from member companies of Ohio's Employee Owned Network, OEOC Professional Members; \$50 per webinar for participants from non-member companies.

CEO CFO ESOP LEADER ROUNDTABLES

NE OHIO – Thursday April 28th 2016 – 3 pm–5 pm, followed immediately by the 30th Annual Ohio Employee Ownership Conference Opening Reception – registration for the roundtable includes registration to the Reception.

SW OHIO – Wednesday October 5th 2016 – 5pm–8pm
Hosted by Star Leasing Co.

*Cost: \$35 for participants from member companies of Ohio's Employee Owned Network;
\$70 for participants from non-member companies.*

ONE DAY EMPLOYEE OWNER WORKSHOPS

These full-day workshops are designed for non-managerial employees (with a beginner and intermediate level of ESOP education) looking to learn more about what makes an ESOP company different from other companies. The program includes:

The ABCs of ESOPs – a basic overview of ESOP mechanics

Basics of Understanding Business – an overview of business and financial terminology and concepts

The OEOC's ESOP Game – the most popular OEOC training module, this high energy, interactive game provides participants with 3 years in the lifecycle of a fictional ESOP company. Building on the first modules, the ESOP Game also expands on them to provide an understanding of the decisions that ESOP leaders need to make to keep the business running.

NE OHIO – Thursday April 28th 10 am – 5 pm, followed immediately by the 30th Annual Ohio Employee Ownership Conference Opening Reception – registration for the workshop includes registration to the Reception

SW OHIO – October 2016 – Location and Date to be announced

If you are a member company of Ohio's Employee Owned Network, have access to a meeting space that holds up to 25 people, and would like to host this workshop, let us know and 6 of your employee owners will be able to attend at no cost. Contact Chris Cooper at cocooper1@kent.edu for details.

Cost: Members of Ohio's Employee Owned Network – \$75 per participant; Non-Members – \$150 per participant

Log on to <http://www.oeockent.org/ohios-employee-owned-network-events/> for details or to register.

Investing in their Success

by

Joe Clayton, President, Sea-Land Chemical Company

Editor's Note: In OAW we like to highlight the great things that ESOP companies are doing to build their ownership culture. During an in-company training session at Sea-Land, your intrepid editor had the opportunity to experience first hand the quality culture, and the quality people creating that culture, at Sea-Land Chemical Company. The following article is one in a monthly series of newsletters written by Sea-Land President Joe Clayton and sent out to all employees (the full series is available on the Sea-Land website: <https://www.sealandchem.com/north-america-news-events>). Joe and Sea-Land graciously allowed us to share the following example from the series, and is a true example of how a positive ownership culture is created - one step at a time. In addition, we had the good fortune to be able to interview the author for a few thoughts on his process on writing the letters. We hope you enjoy!

October 8, 2015

When it comes to most businesses, the largest expense is the workforce. Here at Sea-Land Chemical Co., we look at our workforce as an investment that we must continually develop from the very start of employment.

We have been spending a lot of time the last several years refining our "onboarding" procedures. A good definition of onboarding, also known as organizational socialization, refers to the mechanism through which new employees acquire the necessary knowledge, skills, and behaviors to become effective organizational members and insiders. As with all learning curves, the flatter the better. In talking to several of our recent new hires, here is some of their input:



"The transition was extremely easy for me because everyone was extremely welcoming and friendly. The people here really care for one another and can have fun times, but also work hard together as a team. One of the things I love about Sea-Land, and that also made the transition easy, is the training. From the new hire presentation, to getting to sit down with everyone and learn what they do, to even my own job specific training, it all made the transition very easy and enjoyable. I have never felt looked down upon, or stupid for asking a question or not knowing something. My personal opinion is that everyone should be continually learning, growing and improving. Sea-Land encourages and enables me to do so."

"Atmosphere - Welcoming, friendly, and family feel...Everyone is treated equal in all forms, one job is not more important than the other. This shows with our company provided lunches and outings, we all sit together like a family (including upper management). Recognition of hard work or complements of friendliness and kindness by others and upper management through verbal and or written communication.... everyone is willing to help each other or help answer questions."

"In just two short weeks Sea-Land Chemical has already made a great impact on my life. Every individual at Sea-Land has made me feel more than welcomed and I am excited to become an important part of this family. Sea-Land stands out not only as a top class distribution company but also as a place that is warm and inviting. ...each individual at Sea-Land has been more than accommodating in understanding that there is a learning curve and that it will all come with time. I cannot wait to see where the next few years take both the company and myself."

While we feel our system is working well, I also asked the above individuals for ways to improve. Here is what one of them said:

"...Better organization for temp to hire...(perhaps) it's due to finding coverage for my position or because I have been here so long that it was thought that I was already informed..."

Since we have had very good success hiring individuals that came to us as temps, I can assure you we are looking at ways to improve our process based on this last comment. So what methods do we use? Here are some:

- 1) We have an informal welcome luncheon. This provides an opportunity for everyone to meet the new employee and is a great excuse to provide a meal to everyone.
- 2) For many years there has been an informal "buddy" system that we are now formalizing. New employees are paired with someone who can assist in answering office logistics questions and the most important question -

where is the coffee machine located?

3) Expanded training whereby the new employee spends time in each department within the company. This provides overall company knowledge and helps to build individual relationships.

4) Conduct a "New Hire" PowerPoint Presentation currently done by me. This presentation has the history, culture and expectations of the company and is done for new employees and interns.

We are proud that we have created a positive environment and atmosphere for our employees. Looking for improvements in this process, both for the employee and the company, will lead to success in achieving our goal to consistently keep our work environment harmonious and productive.

Do you have any other ideas on onboarding? Please feel free to share your ideas so that we can all realize the benefits from our biggest investment - our Employees!

All the best,
Joe Clayton
President

OAW Interview: Joe Clayton, President Sea-Land Chemical

Q: Joe, thanks so much for joining us today.

A: Chris, you are welcome and "Thank you" for this opportunity to share our newsletter.

Q: When, and how, did you originally come up with the idea of writing these articles? What were your goals when starting on the process?

A: Four years ago we wanted to start a monthly newsletter but had few personnel available at that time to work on the project. We felt I could start the project and that it would eventually morph into a total, companywide newsletter. I am proud to say that in February we will launch a bi-monthly company newsletter.

Q: While reviewing the newsletters, I was struck by how well written they are. Have you always considered yourself as a writer?

A: Actually, I do have help from our outside marketing agency. I begin by creating ideas with our staff and put together an outline. The agency drafts the article which we, of course, re-write and then send out. We will only send a newsletter which is relevant and would be something I would say and stand behind.

Q: While reviewing them, I was also struck by how varied they are in terms of content while also how consistent they are in outlining the corporate culture at Sea-Land. How do you decide what you are going to write about for a particular month?

A: I look at different things that either happen in life or affect the company in so many ways. As an ESOP, our company really is about the employees. Our culture is such a reflection and there is always some connection to most any subject.

Q: As the editor of OaW, I often find myself in a situation akin to writer's block, in which ideas for content can seem to be hard to find; have you ever found yourself in that position, and how have you overcome it?

A: Rarely have I found myself in that position. By enlisting others to bounce ideas off, there is always something to talk about. Starting with a simple idea is the best way to just start.....

Q: What has been the reaction from the employee owners at Sea-Land to the newsletters?

A: They like the topics and the articles. Routinely they comment on how relevant they are.

Q: What would be your advice to leaders in other ESOP companies debating whether to do something similar in their company?

A: Just do it. It is another way to bring members of the Team together, give an opportunity to share values and communicate. We send this to customers, prospects and suppliers.

Q: Thanks again for your time today.

A: Chris, thank you and one last anecdote. In a recent customer survey we received the following response, "we currently do not buy from Sea-Land but we like the President's newsletter."

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- The ABCs of ESOPs
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- Basics of Financial Information for Employee Owners
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Don't see what you need here? This is just a sample of what we can help you with!
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Webinars

Join us for an exciting new series of webinars for cooperatives and cooperators! **Registration for the webinars is free**; the program is sponsored by the US Department of Agriculture's Rural Cooperative Development Grant Program.

- **An Introduction to the Cooperative Business Model – Thu, Feb 4, 2016 2:00 PM EST** – This session will provide an introduction to the cooperative business model, including a review of all the different types of cooperatives, and what makes them different from traditional investor owned businesses.
- **Starting a Worker Owned Cooperative Business Part One – Thu, Feb 18, 2016 2:00 PM EST** – This session will cover what you need to know about starting a worker cooperative business, with an emphasis on the business side. Market analysis, business plan basics, financing, and more will be covered.
- **Selling Your Business To Your Employees Via A Worker Owned Cooperative – We, Feb 24, 2016 2:00 PM EST** – This session will cover what every business owner or manager needs to know about selling your small business to the employees via a worker owned cooperative.
- **Starting a Worker Owned Cooperative Business Part Two – Thu, Mar 3, 2016 2:00 PM EST** – This session will focus on governance, by-laws, and creating an ownership culture.

Register for the webinars here

5th Annual Cooperative Business Boot Camp

April 28, 2016, Akron/Fairlawn Hilton

This years forum will cover both beginner topics, as well as more advanced topics for those further along the road with their cooperative business. The program is sponsored by the US Department of Agriculture's Rural Cooperative Development Grant Program.

Covered topics will include:

- ABCs of cooperatives
- Starting your cooperative business
- Business planning
- Financing your cooperative
- ...and more

In addition, there is a dedicated track of breakout sessions on topics of interest to cooperators at the 30th Annual Ohio Employee Ownership Conference on April 29th.

Cost: \$50; covers cost of providing refreshments and lunch.

Special Deal: If you register for the 30th Annual Ohio Employee Ownership Conference, registration to the Cooperative Business Boot Camp is included.

If you have questions or would like to register for the Boot Camp or the Boot Camp/Conference, contact Roy Messing or Chris Cooper at 330-672-3028 or [via email](#).

ESOP Participation Requirements: An Obstacle to Building an Ownership Culture?

by
Jim Bado, Workplace Development

Imagine you are making a job offer for an important position at your company and the thing that differentiates you from other firms in your industry is your employee stock ownership plan (ESOP). The conversation might go something like this.

You: "When you take a position here, you become a company owner through our ESOP plan."

Candidate: "What's an ESOP?"

You: "It's a retirement benefit that enables you to earn company stock at no out-of-pocket cost to you."

Candidate: "There's no cost, really?"

You: "That's right. Unlike a 401(k) plan where you have to defer part of your salary to receive any company match, our ESOP is entirely funded by company contributions."

Candidate: "How much do I get?"

You: "Our typical annual contribution is six percent of salary. Compare that to an average 401(k) where you get a 50 cent match on every dollar you defer out of your own pocket, up to three percent total."

Candidate: "Sounds good to me. When do I join?"

You: "Well, you need to be an employee here for one year, work 1,000 hours during that year and then you will enter the plan the next January 1st or July 1st."

Candidate: "So, I won't enter the plan for at least a year?"

You: "Yes, but...."



4. After completing 1-3, enter the plan on the next January 1st or July 1st.

From a practical standpoint, these rules mean every new hire waits a minimum of one year and, in some cases, 18 months to become an ESOP participant – much longer to get their first statement. Wear a new employee's shoes for just one moment: does that sound like a great benefit? It doesn't, does it? If you have an active ESOP communications program, new employees hear about the plan's benefits, yet they are excluded from participating in them.

If that sounds like a mixed message, you're hearing things correctly.

If, like many firms, you want to utilize the ESOP as a recruitment and retention tool, then you must open the "participation" door and let new hires into the plan. The most "radical" approach: eliminate all service requirements and drop the plan entry age to 18. That will enable new employees to join your ESOP now. You read that right: put new hires into your ESOP on day one. Don't waste any time with them sitting on the sidelines as non-participants. You could be more "conservative" and begin new employees' participation after a month or 90 days of service, but, if you want to maximize the ESOP's impact, you need to get people into your plan sooner, rather than later.

Arguments against changing participation requirements like "we don't want to reward people who aren't committed to the company" and "ownership is a benefit for those who are willing to stay here and build the company's value over the long term" sound solid, but at most ESOP companies they're straw men. Your company/ESOP is already protected against short-termers receiving unwarranted benefits through the plan's allocation rules and vesting schedule.

To receive an allocation in most ESOPs, an employee must work at least 1,000 hours during the plan year and be an active employee on the last day of the plan year. Even if new employees enter the ESOP on day one, someone who does not work out may fail to meet these criteria during the first year.

But, let's play devil's advocate and say that he or she does: does that mean your company will be doling out benefits to someone who doesn't deserve them? No, because your plan still has a vesting period, most likely six-year graded or three-year cliff schedule. Even if a short-termmer receives an allocation, he or she will not vest in the benefit until earning at least two years of service with the company.

Do you hear the enthusiasm fading? That's the challenge with most ESOP eligibility rules: the long lag time between being hired and entering the plan can kill a new employee's excitement about ownership. The delay undercuts the value of what should be a strong competitive advantage for recruiting new talent. If you want to make the most of your ESOP, you might want to rethink your participation rules: get new hires into the plan more quickly, rather than forcing them to sit on the sidelines.

Like in the above example, at many ESOP companies, new employees "sit on the sidelines" due to the plan including the statutory maximum eligibility requirements:

1. Be at least 21 years old,
2. Work for the company for one year,
3. Work at least 1,000 hours during that year, and

Forbes Magazine reports the average tenure for millennials is three years and the Bureau of Labor Statistics finds the average tenure for all employees is 4.6 years. Do those numbers mean you'll be "doling" out benefits to the undeserved if you change your ESOP's participation schedule? No, because averages obscure what's happening. If one focuses on millennials, the BLS data show 35.4% of millennials have less than two years tenure with their employer and 6.6% have been with the same company for 10-14 years. Hence, if you have one millennial with ten years tenure and six with two years each, the average employment for millennials at your firm is about three years.

If someone stays at a company for more than two years, that person will probably become a long-term employee. Our experience working with ESOPs has been that new hires who do not "fit in" usually leave before completing two years of employment. So, even though the short-term employee became an ESOP participant and, maybe, received an allocation, the vesting schedule prevented him or her from walking away with any benefit from your ESOP. Or, in the unlikely event that he or she received a benefit, it was minimal (20 percent of his or her account balance).

One, of course, could retain the federal minimum standard participation requirements to insure the plan only pays out benefits to people who stay for at least three years. If you do that, alas, you'll harm the people you want to recruit and retain: new hires who become important contributors to business success. Due to the typical ESOP eligibility rules, that person derives little or no benefit from the plan during the first two years of employment. You can try to "sell" the ESOP as a recruitment and retention tool, but what value does it have to an employee who isn't even eligible for it? Even worse, if you're attempting to build an ownership culture as a competitive edge, you're excluding valuable employees from being full participants in that culture. How does that help your firm succeed? The answer: it doesn't.

In addition to potentially paying out some benefits, there are a few other downsides to changing your eligibility requirements. For example:

- It will require a plan amendment,
- You will track more participants, which will increase administrative time/costs a bit, and
- You may get negative feedback from people who waited to participate under the old schedule.

These costs are minor compared with the benefits of

getting new employees into your plan more quickly. Your ESOP becomes a valuable recruitment tool when you can tell a potential hire he or she will enter the plan as quickly as he would enter a competitor's 401(k). In fact, they may even enter your ESOP quicker than they would participate in a 401(k). With participant-friendly communication materials, you can differentiate your firm from the competition and illustrate how the ESOP, unlike a typical 401(k), requires no employee deferrals.

When an employee enters the plan, begins building value and understands what the ESOP can become (what's in it for me), he or she begins appreciating its benefits. Participation and understanding are the keys to long-term success. For new employees to value the ESOP, they have to be in the plan. To get them into the plan and maximize the cultural benefits, you may need to rethink your eligibility rules. **OAW**





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OAW Interview: Using Video in your Internal and External Communications

David Sullivan, Terrapin Media Development

Editor's Note: In today's world of social media, YouTube, and smartphones, video has become the avenue of choice for communicating your messages, both internally and externally. Like others, we at the OEOC have used video, both DIY and professional, as part of our marketing strategy. However, also like many others, we haven't really thought strategically about how to do so. We asked David Sullivan of Terrapin Media Development (you may recall seeing David and his crew filming the keynote sessions at our annual conferences) to provide a little bit of perspective on how to think about video as a marketing tool; when to do DIY, when to hire a professional, and more.



Q: Dave, thanks for joining us today.

A: Always fun to talk with the team from OEOC.

David Sullivan (photo courtesy Dale Dong, Akronist.com)

regarding that shift in your interactions with your clients?

A: Fifteen years ago the cost of production dropped dramatically. It suddenly became possible to create high quality video with a much lower budget. This of course led to a lot of great videos being made but many bad and ill-conceived projects too. Regardless of quality, all these videos faced the barrier of distribution. DVD's were still the standard and development costs for DVD remained high. Add to that packaging, shipping and storage, and getting your video to your audience it required a considerable budgetary commitment. Plus internet distribution was still hampered by costly encoding, blocky videos and the high cost of internet bandwidth.

Q: Tell us how you got involved with video production, and about Terrapin Media.

A: I've worked in video a long time. First in the U.S. Army as a Video Production Specialist and during college I freelanced as a Producer/Director for local TV and cable stations but my interest has always been in organizational communications - helping businesses and organizations communicate internally and externally. This interest led me to an opportunity to be an in-house video producer for a regional insurance group producing training videos, corporate promotions, commercials, and employee communications. It was great. The body of work from that job really opened up the chance for me to go full-time with Terrapin Media.

Terrapin Media Development, LLC. is a video production company and was a long-running dream of mine. When I started getting interest in my projects from outside clients I took the risk and went independent. Since 2004 I have been producing video projects for a variety of clients across industrial markets from financial services, transportation and manufacturing, to medical, retail and automotive. I like to say we use video to help clients *Create Opportunity, Build Relationships and Tell Their Story*. It's been a lot of fun.

Q: It seems to me that video has become the preferred medium for getting the word out about an organization, as opposed to more "traditional" forms of outreach like print; can you talk a little about what you have seen

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This really began to change in the middle of the last decade. Broadband internet became more widely available and with the launching of YouTube in 2006, we saw an explosion in the number of video streaming service providers. This competition drove down the costs of web distribution to the point where now we have the potential to get your video seen by millions of viewers for a very modest investment or even free. This of course has led to video over load on the internet.

But, to get to the point of your question, it has also led to opportunity. There has been a dramatic shift in how folks consume video on the internet. YouTube has become the second largest search engine on the web. Today when an organization is making purchasing decisions it is not uncommon to hear “do they have a video” coming from the conference room. The old model of sending out a video and hoping someone watches it has been turned on its head. It’s really a marketers dream. Of course it comes with challenges as well.

Q: I also see a bit of trepidation from folks who think that video is too complicated, too expensive, or otherwise difficult to utilize. What are your thoughts on this?

A: Producing a video has never been more affordable or easy. As with any communications project be it print, web, or video you do have to put in the time to craft your message. When you’ve taken the time to know your audience and what you want to say, working with a video professional to develop how you’re going to say it is pretty easy. That time up front is where you save money, remove complications and smooth out difficulties. When we are working with clients the actual time of “lights, camera, action” at their location averages only a day or two (and many times much less) so the perceived interruption in business is insignificant. Video production gear has become smarter and smaller so our “footprint” at their location isn’t very disruptive either. In the beginning, it does require an investment in time from key decision makers and subject matter experts but when you partner with a video production company with a mature and tested workflow you can go from concept to finished video within a few weeks.

Q: Conversely, there has been an increase in the utilization of home grown DIY video, like that done with smartphones and portable digital video rigs, with the quality of results (at least in my opinion!) being somewhat variable. As a video professional, what are your thoughts on the DIY movement?

A: I’m not sure my attitude on this matches many of my peers, but I see more use of video by organizations as a good thing. I have even consulted with clients on a DIY video workflow for their internal communications. Early DIY efforts can cement the value of video as a tool in an organization and as they become more sophisticated in their communication and marketing goals they’re much more likely to reach out to a company like Terrapin Media for their needs. There is the idea out there that these DIY videos, regardless of the quality, imparts a certain

authenticity to the group creating the video. They’re seen as a “bootstraps” organization and there is value to that perception; but it has a limited shelf life.

Q: When, or perhaps where, is the point at which one absolutely needs to involve the services of a video professional like Terrapin?

A: For some marketers and other business communicators that time is now. They have a good profile of their potential clients, an understanding of their product or service and are ready to reach a wider audience with a video that can impact their business performance. Viewers are pretty sophisticated and can spot a professional video from a home-made one pretty quick. The production value of your video should reflect your positioning in your market.

Each organization has to look at this individually. Too many factors come into play to predict when that makes sense for them. At a certain point, producing DIY video can become a distraction to your core business or it may not really reflect your branding. It takes time away from concentrating on clients, administration, sales or any of a hundred of other concerns it takes to keep a business in good working order. It can also hit the budget in unexpected ways. At that point it makes a lot of sense to turn to a production company to execute these projects with you. The organization gets to keep the fun and business impact that making videos bring while saving the time and money DIY video can eat up. And the right production partner will embrace your organizational culture and provide a seamless transition in your video content.

Q: When contemplating a video initiative, what are some tips you can provide our readers on how to get started? Perhaps another way to think about it is, when working with a client, what do you like them to bring to the project at the outset?

A: I like to think of us as problem solvers. If a client has a communications or marketing challenge then video can be a powerful tool to overcome these challenges and help to reach their goals. Knowing what their key outcomes for the project are is very important. Video can be (and often has to be) entertaining as well as informative so being open to creative ideas is helpful. You really cannot rely on a “build it and they will come...” approach to deploying your videos. You must commit to a strategy to build your audience via social media, print collateral, client interactions, etc. And, lastly, it is important to define success and find a way to measure it. Metrics can be as varied as increased sales or web traffic, better employee performance, meeting retention goals, moving the needle on customer satisfaction, employee attitudes or bottom line performance. A good production company will have ideas on how to approach this and it should be a part of your initial conversations with them.

Q: Thanks again Dave for joining us today.

A: Thank you, and have a great day! **OAW**

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