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OWNERS AT WORK

OHIO EMPLOYEE OWNERSHIP CENTER

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Am Air Takes Off

"After all the talk and meetings I knew we were really going to buy the business the day we bought the plane to take to the Canfield Fair Labor Day weekend. We could have flown it in, but it would have been awfully chancy to take off from the fairgrounds again. So we took the wings off and hauled it in by truck and put it back together again. You can understand that Ruth wouldn't want us to do that with her plane, so we had to buy it." Bonnie Forgac, general manager of the Am Air Flight Centre, paused in her recollection to smile. "You should have seen the men coming in after their day jobs to take the plane apart, load it up, and drive it over to Canfield. They didn't get back till 1 a.m. They never would have done that if they weren't going to be owners."

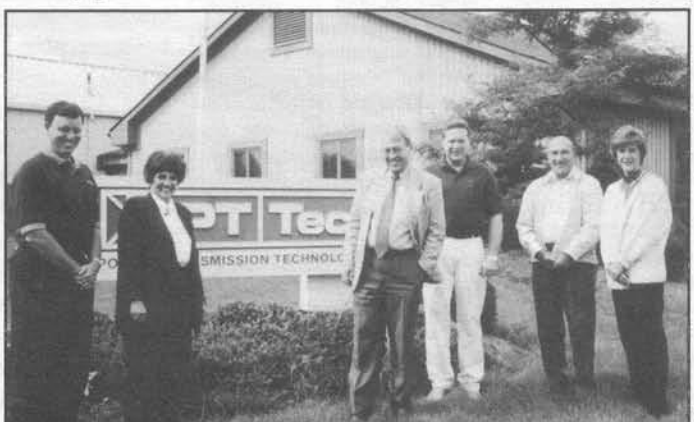
Last spring, Am Air flight school owner Ruth Miele told her employees that she really was retiring and moving to Florida. She and her husband George Schuster had built the school from ground up at the Youngstown airport over a quarter of a century ago. After Schuster died five years ago, Miele went on running the business, but it started losing money. She put the flight school up for sale, but there were no takers. Now she was proposing to sell off the aircraft individually.

The Am Air flight instructors, staff, and their families liked to fly just as much as Miele and Schuster. "What about us buying it?" they asked Miele. Flight instructor Dave

Forgac, who works maintenance at Gorant Candies where employees had explored a buyout in 1991, *(see Am Air, pg. 2)*

ESOPs: An Asset for Sharon Township

Sharon Township, one of the quieter spots in bustling northeast Ohio and a locale known for its rural beauty, is the reputed "Employee Ownership Capital of the Nation" and attracting interest from faraway places. Over 20% of Sharon Township's non-farm businesses have established employee stock ownership plans (ESOPs) for their employees. The township reputedly has the highest percentage of employee-owned corporations of any community in Ohio or the U.S.. Among its 13 non-farm businesses, the township is home to three employee-owned businesses: Power Transmission Technology, Sharon Manufacturing, and The Ruhlin Construction Company.



Sharon Township Trustee Emil Bolas (second from right) and Swedish visitor Per Aahlstrom (fourth from right) meet with PT Tech employee-owners.

The township has gained worldwide attention since last fall when Swedish newspaper editor Per Aahlstrom spent the day meeting with representatives from these firms and collected data for a forthcoming book on employee ownership to be published by the Swedish trade union federation.

As Sharon Township Trustee Emil Bolas said in welcoming the Swedish visitor, "employee-owned companies are unique. As the anchor tenants in our township's two industrial parks, they are an asset to this community in terms of employment, economics, aesthetics, and community support."

Though the township remains predominately a farming community, its three employee-owned businesses employ over 100 employee owners, including 27 at Power Transmission Technology, 20 at Sharon Manufacturing, and 60 at The Ruhlin Construction Company.

The Ruhlin Construction Company is the oldest employee-owned firm out of the three. A general contracting and construction management firm, Ruhlin opened an equipment maintenance *(see Sharon Township, pg. 3)*

Am Air

called the OEOC. "Ever heard of employees buying a flight school?"

Supported by a preliminary feasibility study grant from the Ohio Bureau of Employment Services' Rapid Response Unit the Am Air employee buyout association undertook an analysis of why the flight school had been losing money and what it would take to turn it around.

With a money-losing history and only 20 employees--mostly part time, Am Air was a poor candidate for an Employee Stock Ownership Plan. It's hard to keep legal and valuation costs for an ESOP under $15,000, and the Am Air employee group was having difficulty raising funds to buy the planes. Consequently, the employees established a cooperative instead. Co-ops are inexpensive to set up and maintain.

Co-op members Tim Maderitz (flight instructor), left, and Joe Maxin (pilot) open Am Air's new pilot shop.

Am Air Flight Centre combines a worker co-op with a consumer co-op. Of the thirteen co-op members who put up $2,500 each for membership, seven are employees of the company and the others are pilots who buy flight time from Am Air. Employees and volunteers receive patronage hours for their work which will become the basis for dividing up the bonus pool (50% of profits) at the end of the fiscal year. Members and their families also receive a rebate on their flying time.

Supported by a grant from the OBES's Rapid Response Unit, the Am Air employee buyout association analyzed why the flight school had been losing money and what it would take to turn it around.

Getting Am Air off the ground

Putting together the employee buyout was not easy. While the preliminary feasibility study was positive and the business plan addressed how to make the flight school profitable -- in part by a wage investment of $2 per hour worked, local banks were concerned by the school's history of losses. Five losing years in a row inspired no confidence.

Ultimately the banks refused to lend without each co-op member co-signing the note for the entire loan. So the co-op members restructured the deal. Each agreed to lend the co-op $8,000; most borrowed that sum individually. Thus each member limited his or her liability to $8,000 rather than the entire purchase price. But the co-op came up 3 members short of what the business plan said was necessary. To make the numbers work, members agreed to suspend principal payments and to accrue the 9% interest on the loans through the slow winter season to maintain working capital, and seller Ruth Miele lent the new company $10,000 to get it off the ground. Employees bought the remaining aircraft, parts, and office equipment in mid-September.

So the new Am Air Flight Centre took off in September with three planes it owned and three on lease-back from area pilots.

Reconstructing Am Air

As the potential lenders noted, Am Air was a money-losing operation. It's one thing to write a business plan describing how to turn the flight school around; it's another to actually do it. What has the Am Air co-op done to date?

Am Air really has three businesses: it sells flight time to pilots, provides flight and ground instruction, and it runs a pilot shop, which sells instructional materials, maps, and clothes. All were underutilized.

The first task was to get the word out that, rather than being liquidated, Am Air was flying under new ownership. Starting with the Canfield Fair, Am Air co-op members hit the local circuit to publicize the school. As a consequence the school had the busiest fall they have had in years, and today Am Air has more people in ground school than ever before.

Flight time is very seasonal, both for pilots and for students. Those gorgeous spring days bring

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.

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them out, but November through March can be grim. So the business plan called for expanding pilot shop sales, and co-op members pitched in on weekends to remodel and expand the shop.

"Next year we'll have a catalog out for the pilot shop in time for Christmas -- as well as a web page -- to help keep us profitable next winter when the weather is bad," says Bonnie Forgac.

The third major change was to set up computer systems to track flight and instruction hours and to implement point of sale accounting. During the winter, Am Air has gotten much of that in place for the busy spring season coming up.

"We're financially ahead to date," says Forgac. "Heck, given how we're performing, we'd have the loans paid off -- if we were in Arizona. But flying is seasonal in a state like Ohio. What we **really** need," as Forgac's eyes lit up, "is to do more with the instrument flying side of the school. We've got the weather conditions in Youngstown for that."

Ownership makes the difference

Underlying Am Air's renaissance is member involvement. "We have a very talented group of people as owners," says Forgac. "We've got electricians, lawyers, accountants, mechanics, flying instructors, teachers, software and computer experts, and members who know advertising. Everybody is putting their expertise into it." Bi-weekly member meetings provide a good forum for discussion and making key decisions.

Am Air president Dave Forgac works on the remodeling.

"Remodeling did more than just open up the offices. It helped open us up too. You can see it in the students' faces.

> ***"When Ruth owned Am Air, she was the only one who had a vested interest in its success. Now we all have a vested interest in making Am Air work better."***

There's a lot of excitement about all the positive stuff that's going on. That excitement feeds on itself and grows. It's exciting for the students and it's exciting for us too."

"The only problem is coordinating all that enthusiasm," Forgac added a bit ruefully. "And, of course, it's difficult to get people motivated to do the mundane things when they are doing what they really like."

"Every time anyone calls, no matter how far fetched their request, no matter how unusual, we try to accommodate them. That's the new attitude. When Ruth owned Am Air, she was the only one who had a vested interest in its success. Now we all have a vested interest in making Am Air work better." □

Sharon Township

shop in Sharon Township back in 1964, and moved its corporate headquarters to Sharon in 1989. The firm was established in 1915 in nearby Akron and has been employee-owned since 1977. The decision to establish an ESOP fit the firm's long-term philosophy of sharing profits with all who make the business a success.

> ***"(ESOPs) are an asset to this community in terms of employment, economics, aesthetics, and community support."***
>
> Emil Bolas
> Sharon Township Trustee

Sharon Manufacturing, 100% employee-owned since 1986, was founded in 1970 as a wholly owned subsidiary of Ruhlin Construction. Sharon produces custom, close tolerance fabrications and assemblies for the capital equipment market. The ESOP provided a mechanism to purchase shares of stock from the parent corporation as part of a strategy for corporate restructuring as the family founders of Ruhlin retired. A profit sharing philosophy again played an important role in the decision to finance the purchase through the ESOP. Jerry Kostelny, Sharon's president, had been asked by the Ruhlins if he would consider either buying the company himself or the possibility of an ESOP. As he put it, "I could envision what the future would be like as the owner of this business. How could I not pass along and share that same opportunity with the employees that was offered to me?"

Power Transmission Technology, or PT Tech, was founded in 1978 as a specialty engineering company that develops torque limiters, braking, and transmission components for heavy equipment in the mining, steel, and construction industries. Employee ownership was established later as part of a strategy of planned growth. The ESOP provides a mechanism for buying out the company's original investors as they retire, keeping ownership in the hands of the employees.

During a company tour, Manufacturing Manager Tom Richards, described the company's culture, "We promote open discussion and input by all employees. I rely heavily on the people I work with to make intelligent decisions." Each employee participates in the Excellence by Objective program which involves goal-setting and quarterly feedback on individualized continuous improvement plans.

Trustee Bolas commended PT Tech for spearheading the transformation of a run-down farm property in the township into a first-class corporate park when the firm decided to move their small but expanding business into Sharon Township. Today the industrial park attracts other business tenants.

When Sharon Township incorporated in 1931, farming was a way of life. Just as Americans moved from the family farm to the factory, now many types of businesses, and the communities that support them, are looking at yet another transition in their individual and local economies, a transition to employee-ownership of the businesses where they work. "Employee stock ownership gives people an incentive," added Bolas. □

OEOC to Administer Prefeasibility Grants

The Ohio Bureau of Employment Services (OBES) Rapid Response Unit and the Ohio Employee Ownership Center (OEOC) are pleased to announce that the OEOC will be administering the OBES preliminary feasibility study grant program.

"This has been a remarkably successful program," says OEOC director John Logue, "because it helps people help themselves. Our hope is to publicize the program so we can catch shutdown threats earlier and have a better chance of retaining jobs that would otherwise be lost."

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> John Logue, OEOC Director

"Saving jobs is the smart thing to do," says Jim Turner of OBES's Rapid Response Unit. "It can save thousands of dollars in state funds by eliminating the need for unemployment compensation and other social services while it expands the local labor market by permitting newly created jobs to be filled by new workers."

A successful Ohio program

Ohio has been a national leader in funding prefeasibility studies to determine whether threatened plant shutdowns can be averted. Seventeen Ohio studies have been commissioned with the support of the Job Training Partnership Act (JTPA) since 1990. Of these, four plants employing over 350 workers were ultimately bought by the employees. Further, one company with 50 employees was saved by the existing owner actually implementing the results of the study. Four others were purchased by outside buyers, and seven were ultimately shutdown. Of these seven shutdowns, the employees at one facility currently have an agreement to buy and reopen shop if financing can be arranged in the next three months.

The prefeasibility grant program has been extraordinarily cost effective: the total cost of the program has been $175,000 for 400 jobs saved or $445 per job.

Together these companies employ about 450 today. If those additional jobs are factored in, the OBES costs work out to be about $395 per job.

How does Ohio compare?

To determine best practices for administering the program, the OEOC commissioned a study to examine what has been done in other parts of the country. This study found that twelve states have used the opportunity in the Job Training Partnership Act to support investigating whether employee ownership could avert a threatened shutdown. These states include Alaska, Colorado, Illinois, Indiana, Maine, Massachusetts, Michigan, Minnesota, New York, Pennsylvania, and Washington as well as Ohio.

Among the states which have funded prefeasibility studies, use has varied tremendously. It varies between Alaska, which has funded one study during the 1990s, to New York which funded 52 last year alone. Beside the usual metal benders, fabricators, and other manufacturing firms, studies have been done of such varied businesses from an orchestra to a flight school and a fish packing plant.

It was difficult to ascertain the success rate without forcing each state's displaced worker unit to do its own research, but all but one of the nine states which provided data had at least one success to their credit.

Overall, about one prefeasibility study in six leads to a successful employee buyout. *(Ohio pulls up the average by having four employee purchases in seventeen projects.)* The Denver orchestra ended up being purchased by the musicians, and the Am Air flight school in Youngstown, Ohio by the flight instructors and some local folks who like to fly.

In addition, several of the studies actually became the basis for the previous owner reconsidering a shutdown or for another buyer stepping in. In one Ohio case, the prefeasibility study looked so good after key changes in the company's marketing strategy that the majority owner decided to implement the buyout group's marketing proposal instead of shutting the plant. While the employees didn't ultimately succeed in buying the Alaskan fish packing plant, a local tribe which sold fish to the plant used the study as a basis for its decision to buy the plant and keep it open.

How can the program be made more effective?

Practically all those administering the program concurred that time was of the essence. A number of otherwise viable employee purchases failed simply because time ran out. Six months notice of a shutdown -- rather than 60 days -- would make a world of difference.

"While we can't change Federal law," says OEOC's Logue, "we can ask companies intending to shut plants in Ohio to extend full cooperation to the employee feasibility study so we can use the time we have most effectively."

What is most crucial is having friendly equity investors at hand. The time has come for Ohio to explore establishing an ESOP Equity Fund.

"If we analyze the seven plants which were shut, three were clearly viable businesses with a modest equity investment -- had it been timely," says Logue. "Two million dollars in equity would have saved the 400 jobs involved." □

Ohio Prefeasibility Assessment Grants are available to support preliminary feasibility assessments of averting shutdowns through employee purchases of the threatened facilities. Requests should be made to the OEOC by employee or community buyout committees. Ohio Prefeasibility Assessment Grants are made on a matching basis.

For more information, contact Alex Teodosio at 330-672-3028.

Dinner at the Madison: Louis Kelso meets Russell Long

Norman G. Kurland

More than any other single event, Louis Kelso and Russell Long's dinner in November 1973 put Employee Stock Ownership Plans on the national agenda. But what really happened that evening?

Owners at Work asked that question of Norm Kurland, who was there. Here is his account.

In the chronicles of the expanded ownership movement, the meeting on November 27, 1973, between "ESOP inventor" Louis Kelso and Senator Russell Long in the Montpelier Room of the Madison Hotel, was a watershed event. For the first time, a major political power became excited about Kelso's concept of how to expand ownership of productive assets and agreed to champion those ideas in legislation.

A tough sell on Capitol Hill

Behind the Kelso-Long meeting lay a major push to sell the Kelso message in Congress.

In the early 1970s, Kelso and I had begun to focus our efforts on Capitol Hill. Senator Fred Harris had become interested in Kelso's ideas. Through his aide Bill Maynes (who has recently left the Carnegie Endowment for Peace), Senator Harris published a number of Kelso's articles in the *Congressional Record*, as well as responses to economist Paul Samuelson's attack on Kelso.

In 1972 we began to score. Representatives of the National Maritime Union (NMU) had come to me to try to save the passenger vessel industry. The NMU had 5,000 of their members walking the streets after the taxpayers cut off operating and construction subsidies for the American cruise business. As a result, Tom Martinez, one of the leaders of the National Maritime Union, wanted to see whether the Kelso idea could help. The National Maritime Union hired Kelso and me to advise them on a plan to save the industry.

The president of the National Maritime Union, Joe Curran, testified on February 28, 1972, before the Senate Maritime Affairs Subcommittee, saying that his union was prepared to cut labor costs by 50% if the Congress would cooperate in helping them adopt the Kelso plan to save the industry. The committee studied the matter. As later proved ironic, the chairman of the committee, Senator Russell Long from Louisiana, listened to Curran's testimony and rejected the idea, commenting "sounds like one of my daddy's programs, 'make every man a king.' "

However, another Congressional avenue was opening up at the same time. Charlie Pillsbury from Minneapolis, who was working for the 1972 presidential campaign of George McGovern, contacted me. He had heard from someone who had listened to the grassroots leader from Harlem, Ennis Francis, give a presentation on ESOPs. Her audience, a group of Federal economic development officials, thought the ESOP idea sounded wonderful. Charlie became interested in the Kelso idea and, after reading Kelso's book, persuaded his father, George Pillsbury (who was a member of the board of the Pillsbury Corporation and a state senator in Minnesota) to become interested. George was a supporter of Richard Nixon and a major political figure in the Republican party in Minnesota.

Father and son discovered in Kelso an idea which could unify them and unite the supporters of George McGovern and Richard Nixon. Kelso and I became friends with George and Charlie Pillsbury. George arranged for Kelso to testify before one of the state legislative committees on what the state could do to encourage ESOPs in Minnesota, particularly with respect to conversion of defense industries into peacetime manufacturers. Kelso testified and that deepened our relationship with the Pillsburys.

As the election of 1972 approached, I called George Pillsbury and mentioned that I was running into roadblocks in getting our message into offices on Capitol Hill. I felt that the conservatives could find in the Kelso idea a brand of politics that would strengthen their hand. They were still the minority and it appeared they would remain so for some time. So I called George and asked him if he could open some doors for me.

George gave me three names. We struck out with two: Senator Jake Javits of New York (with whom we were never able to have a meeting), and Senator Chuck Percy of Illinois (who phoned me but couldn't see the difference between Kelso's concepts and profit sharing). The third was Peter Dominic from Colorado who chaired the Republican National Campaign Committee. Senator Dominic called me and after a few minutes said, "I think you should meet with Senator Paul Fannin of Arizona who's on the Senate Finance Committee. Tell him I suggested you give him a call."

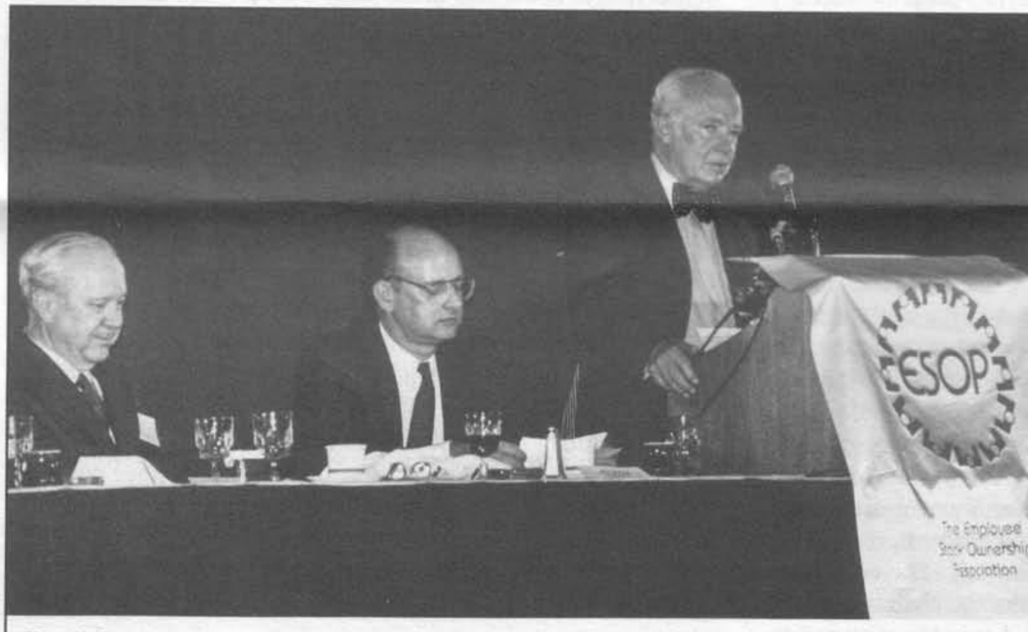
The next day I called and almost immediately got a meeting with Senator Fannin. Fannin quickly saw the political significance of Kelso's ideas. I had shown him the statistics on the concentration of ownership among stockholders of US corporations, and pointed out that most Americans, because they didn't have significant equity interests, would be hostile to corporations and hostile to corporate profits. Propertyless citizens would also be easily swayed by people who were pushing an anti-corporation position in politics. I suggested to him that the only way for the free enterprise system to strengthen itself would be through a broadening of private ownership. Here I explained the Kelso financing method. Senator Fannin, who had come from a business background before he entered politics in Arizona, quickly understood.

Senator Vance Hartke told Kelso, "You know, these ideas are really interesting, they're provocative, they're positive. It isn't often that we hear good ideas. But you'll never sell this idea to the Congress."

Through Senator Fannin we were able to arrange for Kelso to come in and make a presentation to eight or nine of the most conservative members of the Senate Finance Committee. Russell Long, who chaired the committee, was not there. Senator Talmadge was the only Democrat present. Senator Bennett from Utah, the father of the present senator, was there. Senator Curtis and Senator Hansen—very conservative Republican members of the Senate Finance Committee—were there. As a result of Kelso's presentation, we were able to introduce our "wish list" legislation (called the "Accelerated Capital Formation Act") through the sponsorship of Senator Fannin.

Our 1972 expanded ownership legislation didn't go very far in the legislative process, but at least it gave us an opportunity to talk with members of both parties.

At that time it was clear that there were two "prime movers" in politics on Capitol Hill whose support was critical to passing tax laws encouraging Kelso's expanded ownership ideas. One was Russell Long. (I felt that Senator Long would not be the appropriate person because of the way he had reacted to the National Maritime Union proposal.) The other was Wilbur Mills, the head of the House Ways and Means Committee. We tried but could never get past their gatekeepers to meet either of them face-to-face. I made efforts to reach out to as many other members as possible from both parties in both houses. The legislation from Fannin helped. Kelso and I figured that we would surround the leadership with such broad support that it would be difficult for Long or Mills to oppose us.



From left to right, Senator Long, Wayne Thevenot and Louis Kelso at the ESOP Association Conference.

The railroad crisis

On February 28, 1973, Kelso and I testified on the legislation to save the eastern US freight rail system, then threatened by the near financial collapse of the Penn Central Railroad. The two basic legislative options being considered were (1) to nationalize (for which there was some support) or (2) to subsidize the reorganization of the railroad into what later became Conrail. These subsidies would clearly benefit the railroad's existing shareholders as well as its 16 labor unions.

Here was a crisis in which there seemed to be no satisfactory political solution. Seeing this as a political opportunity, Kelso and I testified that there was a third alternative. We proposed converting the railroad system into a 100% employee-owned railroad using an ESOP, restructuring the labor deal so that the unions would now have a prototype labor arrangement (which today we call "Value-Based Management"). Under our proposal, workers would share ownership, profits and dividends over and above their negotiated wages. In effect we took what we had developed for the National Maritime Union and applied those ideas to the railroad.

When Kelso and I testified on February 28th, Senator Vance Hartke, who chaired the committee, told Kelso, "You know, these ideas are really interesting, they're provocative, they're positive. It isn't often that we hear good ideas. But you'll never sell this idea to the Congress." That statement underscored the deep cynicism that permeates Washington politics. Kelso and I accepted it as a challenge to try to move ahead despite this indifference on the part of the political leadership.

During 1973, after this testimony, we continued to promote the ideas with the committee staff, but met with very limited success. Then in August 1973 an article by Senator Mark Hatfield of Oregon appeared in the "Outlook" section of the *Washington Post*. It was entitled "Six New Directions for America." Lo and behold, one "new direction" was the Kelso idea—expansion of capital ownership and employee stock ownership. Clearly someone had taken our ideas to Senator Hatfield. Our strategy had been to spread the seeds and let them take root. One seed, at least, was blossoming.

I went to Senator Hatfield's office and convinced Senator Hatfield to sponsor a proposal to convert the Eastern railroad into a 100% employee-owned company. With the agreement of one senator to sponsor the legislation which I had drafted, along with the package of support for the ideas, we then took the legislation to the political left and right. We met with Paul Weyrich, a leader within the political right (who is now the head of the Free Congress Foundation). He liked the ideas and got Senator Curtis to be one of our co-sponsors. We also took it to Senator Hansen of Wyoming. He already knew of the ideas and agreed to be one of the co-sponsors. We took it to friendly staff aides of Senator Metcalf and Senator Humphrey and the senators agreed to be co-sponsors. We had a broad bipartisan base of five co-sponsors. Everything was fine, except none of them were members of the right committee.

From August until November 1973, nothing seemed to happen.

The turning point

Wayne Thevenot, Russell Long's executive assistant, had been approached by an important constituent in Louisiana, Dr. Joe Beasley.

Beasley, who was the Chairman of National Planned Parenthood of America, had learned of Louis Kelso's ideas through Henry McIntyre who was a long-time advocate of Kelso and an investor in Kelso's first ESOP investment banking firm, Bangert & Company, as well as one of the principal fundraisers for Planned Parenthood. Beasley read Kelso's 1968 book (co-authored with Patricia Hetter), *Two-Factor Theory: The Economics of Reality,* and became excited. Seeing in Kelso's ideas a solution to major problems, Beasley offered to cover Wayne Thevenot's costs to travel to San Francisco to meet with Kelso. Thevenot made the trip and, after putting many questions to Kelso, became convinced that Kelso was on the right track—and that he had a major new idea.

Thevenot agreed to try to convince his boss, Russell Long, about Kelso's ideas. He took the book, plus the first book written by Kelso, *The Capitalist Manifesto*, and presented it to Long. As I recall the story from Wayne, Senator Long opened *The Capitalist Manifesto,* thumbed through it and said, "I want to meet these people."

Kelso called me and asked me to work with Wayne Thevenot. Thevenot and I met and arranged for Kelso to come into Washington to meet with Russell Long.

On November 26, 1973, I drove to the airport to pick Kelso up for our meeting with Senator Long. On the way back from the airport we were listening to the radio and heard Eric

> ***"None of us want the railroad to be owned by government, where taxpayers have to keep supporting it. And why should we be bailing out the stockholders from the old Penn Central? I've got the answer: Let the workers become the owners."***
>
> Senator Russell Long

Severeid, the noted CBS commentator, ask, "Casey Jones, where are you?" Based on materials I had sent him, Severeid delivered an editorial supporting our proposal for the Conrail system. He didn't name us, but mentioned Senator Hatfield. This was the day before our meeting with Long. That event boded well for our meeting.

The next day around 6:00 p.m. we went to the Senate. Senator Long was tied up in the debate on campaign financing. Kelso and I went into the gallery to wait for him to finish. About 7:00 p.m. Senator Long came up to us in the gallery and announced, "Let's all go out to dinner."

A meeting of minds

We went to the Montpelier Room (then one of Washington's most exclusive restaurants) at the Madison Hotel where Kelso was staying. Four people were at the dinner: Senator Long, Louis Kelso, Wayne Thevenot and myself. Now, normally, the only way you get legislation through Capitol Hill is either to have a lot of money or a lot of votes in your pocket—and we had neither. To get five minutes of the time of someone like Russell Long is an incredible feat. We spent *four hours* with Senator Long that evening. And Russell Long picked up the bill!

The dinner began with Kelso devoting about 45 minutes to discussing his general theory, political theory, and the logic of binary economics with Russell Long. Long sat there and at first mainly listened. Then he began relating Kelso's ideas to his father's "share the wealth" programs.

Huey Long was a charismatic populist who was assassinated about the time he was becoming a serious critic of Roosevelt's

Long compared Kelso's ideas with those of his father and made it clear that he himself was not a Robin Hood populist—implying that his father was. But Russell Long liked the idea that every man should become a capital owner, what he called a "capitalist."

New Deal. Huey Long was developing a populist base which Roosevelt supporters in the Democratic Party were worried about, because they felt Huey Long was one of the few who could challenge Roosevelt for political leadership. After Huey Long was assassinated, Russell Long became the youngest Senator ever elected. He was actually elected before he reached 30, the minimum age to qualify him to assume the office of US Senator.

Long compared Kelso's ideas with those of his father and made it clear that he himself was not a Robin Hood populist—implying that his father was. But Russell Long liked the idea that every man should become a capital owner, what he called a "capitalist." There was an interesting exchange for close to two hours between Long and Kelso, where Russell Long related his own philosophy.

Long asked who opposed Kelso's ideas. Kelso answered that traditional economists opposed his economic theories—that his ideas challenged their paradigms. Kelso mentioned Milton Friedman and Paul Samuelson by name. I remember Senator Long's response: "One of my basic principles that I had from the time I first entered politics is that I don't care *who's* right, I care *what's* right. *This* is right."

Then Long turned from Kelso to ask, "What are you people doing about it?" Until then, Wayne Thevenot and I had remained pretty much silent, letting the dialogue flow between Long and Kelso.

I said, "Senator, we have a bill before Congress dealing with the railroads. Senator Hatfield is the principal sponsor, and we have Senator Humphrey and Senator Metcalf from the Democrats, and Senators Curtis and Hansen from the Republicans, who are co-sponsors. But the bill is not going to go anywhere. We know that. We've talked to the staff and haven't got anywhere." I remember saying, "We know that anyone can introduce a bill, but we know that it's going to take more than that to get it passed. We need the right person who's a member of the Commerce Committee, somebody with the courage and the power to take our proposal and convert it into law."

Long looked at me and said, "You bring me something tomorrow morning."

An ESOP champion enters the fray

The next day we brought Senator Long the package we had prepared for Senator Hatfield. According to Wayne Thevenot, who was in the meeting of the Commerce Committee, Russell Long took the package and walked into the meeting. Senator Long started waving these papers around saying, "I've got the answer to this railroad problem. None of us want the railroads to be owned by government, where taxpayers have to keep supporting it. And why should we be bailing out the stockholders from the old Penn Central? I've got the answer: Let the workers become the owners. Let's design it so the workers will become the owners of the railroad, own a piece of the action."

Some of the senators said, "Russell, this sounds great!" Then the chairman of the committee, Warren Magnuson of Washington (smoking his stogie, according to Wayne) looked at Senator Long and exclaimed, "Russell, the meeting hasn't even been called to order!" And Senator Long answered, "Well, I'm really busy. I've got another meeting down the hall, and . . . this is the answer!"

Lynn Sutcliffe, the staff director of the Surface Transportation Subcommittee, objected: "You know, Senator, I've been hearing these ideas from Kelso and Kurland and really, there are a lot of problems."

At this point I should mention that we had been speaking to the unions involved with the railroads. The sixteen unions had invited me to speak before them at the AFL-CIO meetings in Miami Beach. We had one of the unions, the Brotherhood of Railway and Airline Clerks, supporting our idea but the other fifteen unions—the Teamsters, Transportation Workers, etc.—had worked out their deal with the railway executives, both sides collaborating to take the money from the taxpayers. So organized labor was not yet ready to support Kelso and had conveyed to Sutcliffe their opposition.

Senator Long cut Sutcliffe short, responding, "you're telling me about problems. Problems. That's all I deal with every day. Don't tell me about problems. This is the solution!" Sutcliffe became quiet after that.

It wasn't until December that the ESOP legislation got introduced into the Senate. Senator Long had to fight for it. Senator Javits, who didn't like the ESOP or Kelso's ideas, was ready to oppose the legislation. But before Javits could voice this on the floor of the Senate, Russell Long walked over to him (I could see Senator Long from the gallery) and put his hand on Senator Javits' shoulder and started whispering to him. Javits, not wanting to be viewed as an enemy of worker ownership, took the hint and remained silent.

Senator Long managed to get a watered down piece of our legislation into the law. It didn't call for 100% employee ownership. It merely called for a study to determine the extent to which the employees should be owners. We wrote the criteria for the study, figuring that the only conclusion any objective group could possibly have was that there should be 100% ownership by the workers.

In December the legislation calling for an ESOP study was passed. It was signed into law on January 1, 1974, by President Nixon.

While we succeeded in establishing a beachhead for the ESOP, the powerful forces of the status quo fought back. The Department of Transportation awarded the ESOP study to the investment banking firm E.F. Hutton; a leading firm on executive compensation, Towers, Perrin, Foster and Crosby; and a labor economist, Saul Gellerman. They wrote a report concluding that nothing positive would result from the use of an employee stock ownership plan for the railroads. Kelso and I later had an opportunity to provide a point-by-point rebuttal that was included in our testimony before the Joint Economic Committee in 1976, when Senator Hubert Humphrey held two days of hearings on ESOPs.

> *"I don't care **who's** right, I care **what's** right. **This** is right."*
>
> Senator Russell Long

The rest is history. Today, because of Russell Long's championing of the ESOP and the ideas of Louis Kelso, we have over twenty US laws promoting ESOPs, including the cornerstone Employee Retirement Income Security Act of 1974 (ERISA). There are over 10,000 ESOP companies and over 11 million employee-owners.

The meeting between Senator Russell Long and Louis Kelso, the events leading up to the meeting, and the events that followed, demonstrated that "prime mover" support is crucial for an idea that is as revolutionary as Kelso's, an idea that still lacks credibility among academics, particularly academic economists.

To move systemic change forward with any degree of speed takes authentic leaders—people with power, people with courage, people with principle and vision. Such leaders must first be willing and able to challenge the forces of the status quo, to do what is morally right, to go over the heads of the opposition and communicate on moral grounds directly to the public. Russell Long became the prime mover behind the Kelso revolution.

We now need more prime movers like Russell Long to realize the full potential of Louis Kelso's remarkable vision to achieve economic empowerment for all through broad-based capital ownership. □

In November 1973, Norm Kurland was Louis Kelso's Washington representative as the Executive Director of the Institute for the Study of Economic Systems, which promoted Kelso's economic ideas, and the Washington counsel for Bangert & Company, Kelso's first investment banking firm. He had previously worked in the civil rights and antipoverty movements. Today Kurland is President of the Center for Economic and Social Justice in Washington, D.C.

Is Kelso the Answer to the Global Economy?

Unless you bury your head in the sand, it's hard to miss the fact that we are on the road to a global economy.

It isn't just NAFTA and "fast track" trade negotiations. It's not just the Asian financial crisis. It's the internationalization of industrial production, investment, currency speculation, and capital flows that continues every day whether the President has "fast track" authority or not.

The global economy is a two-edged sword. It can enrich us all -- Americans as well as citizens of developing countries -- through growing trade and rising living standards at home and abroad. Or it can impoverish us all through a race to the bottom in which our jobs move off-shore leaving behind empty factories, idle workers, and poorer communities, while workers in developing countries remain mired in starvation wages, rampant pollution, and deadly working conditions.

Which result we end up with depends significantly on which choices we make.

In a fascinating new book *One World Ready or Not,* William Greider, the author of *Secrets of the Temple* (about the Federal Reserve Bank) and *The Education of David Stockman and other Americans*, asks us to "confront capitalism's repetitive pathologies and organize a new system that genuinely merges the marketplace with democracy."

At the core of these pathologies, Greider argues, is the prevalence of poverty amidst plenty, now on a global scale.

If Indonesian workers owned their share in those Nike plants, we would all be better off. Their wages would be higher and they could buy our products. Maybe they could even buy the shoes they make themselves. Of course, Michael Jordan's endorsement income might be a bit lower....

Even in industrial democracies in Europe and North America, an increasing share of national income is allocated to capital, in part because of increased technological capacity, in part because of capital's growing mobility in search of cheap labor. The nation-state is increasingly irrelevant as a unit for economic policy. The consequence is that the rising tide of national and international prosperity lifts only some ships. As Greider quotes Syracuse University professor Robert Ashford, "We have a capital boom and a labor depression around the world."

Of the various remedies Greider discusses -- enforcing more balanced trade among nations, boosting consumer buying power from the bottom up, levying heavier taxes on capital to reduce taxes on labor, defending labor standards, regulating the players in the global market in our collective self interest, maintaining social protections -- none ring truer than "universalizing access to capital ownership."

If Indonesian workers owned their share in those Nike plants, we would all be better off. Their wages would be higher and they could buy our products. Maybe they could even buy the shoes they make themselves. Of course, Michael Jordan's endorsement income might be a bit lower....

But how do you "universalize capital ownership" in a world where most economic forces point toward capital concentration in the hands of those who already have capital?

Using the credit system to broaden ownership

For Greider, one key "is reform of the credit system -- enabling people without any wealth of their own to borrow the funds to buy shares of capital ownership, loans that will be paid back by future earnings from the very income-producing assets they have acquired."

We don't have to think in terms of complex economic strategies here, says Greider, for this is exactly "the same means by which families acquire equity in their homes: instead of paying rent to a landlord each month, they pay off the mortgage loan that enabled them to buy the house."

In the United States, Greider specifically seeks to put on the national political agenda Louis Kelso's proposal to channel the Federal Reserve Bank's money creation to broaden ownership in the United States.

> Every year, as it enlarges the nation's money supply to meet the needs of commerce in an expanding economy, the Federal Reserve creates $30 billion to $40 billion in new money -- literally "free money" that is created out of nothing more tangible than the public's shared faith in the currency and the economic system. This new money is now distributed through the private banking system, lent out by commercial banks to people and businesses at market interest rates and for private gain. If the newly created money was instead lent directly to citizen-ownership trusts, it would provide very cheap capital for a large public purpose.

This is hardly a non-controversial position, even in a country which espouses the virtues of universal capital ownership, like our own. "Economists who have grudgingly accepted Kelso's other ideas still choke on that proposition, though it is the core of his vision for achieving a synthesis of democracy and capitalism."

That is, after all, Thomas Jefferson's argument. In Jefferson's view, what made the United States fertile ground for democracy when this country was founded was the fact that ownership of productive assets was broadly distributed. Farmers owned their own land; artisans, their tools; and shopkeepers, their shops. In American political thought, democracy has always required broadly shared ownership.

Growing local economies

There is another side of employee ownership in the global economy that demands our attention: employee-owned firms anchor capital locally. They reinvest locally. They purchase more from local suppliers. They invest more in apprenticeship and training programs.

Why?

Their owners' jobs and their owners' children's jobs depend on it. Employee-owned firms are rooted in the community.

That doesn't keep them from being part of a global economy in terms of taking part in international trade.

It does, however, keep them from taking part in the "race to the bottom" in wages and benefits that characterizes so many global firms. It also keeps them from the speculation -- in the Thailand *baht* or in Hong Kong office buildings -- that exacerbated the Asian financial crisis.

That's a global economy based on ensuring that ordinary Americans' interests are served first.

This may not be very sexy on Wall Street, but it plays very well on Main Street in any town in Ohio.

"A democratic society makes choices," Greider writes, "and those choices will reflect what its people truly value. And every society, even a very rich one, has to live with the consequences, wise or foolish." □

William Greider, *One World, Ready or Not: The Manic Logic of Global Capitalism* (NY: Simon & Schuster, 1997). 528 pages. $27.50.

Greider will be a keynote speaker at the 12th Annual Ohio Employee Ownership Conference on April 3rd in Akron. For conference information and registration, see page 11.

OEOC Succession Planning Program

The Ohio Employee Ownership Center (OEOC) has teamed 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 before the crisis hits.

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 experienced consultants questions and interact with other business owners.

This program is jointly funded by the **Cleveland Foundation** and the **George Gund Foundation** as an effective means to retain jobs that would otherwise be lost from failure to plan for succession. Since the programs inception in 1996, there have been 109 owners and managers from 86 companies that have participated to date. These 86 companies employ 8,085 workers.

The Spring 1998 program will focus on the new tax laws, legal questions, management issues, funding strategies, and using an Employee Stock Ownership Plan as an alternative.

For more information on these programs, contact
Alex Teodosio at 330-672-3028

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.

This year we helped Ohio employees avert shutdowns and save their jobs at places like Yorde Machine in Nelsonville, 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-deductive donation to help the OEOC continue providing quality services. Your individual contribution will help the Center serve you and others interested in employee ownership.

Thank you very much for your support and I hope to see you at the 12th annual employee ownership conference on April 3rd in Akron, Ohio.

Kindest regards,

John Logue

John Logue
Director

Checks should be made out to: **KSU Foundation / OEOC**

Ohio Employee Ownership Center
309 Franklin Hall
Kent State University
Kent, Ohio 44242

OEOC
Ohio Employee Ownership Center

Employee Ownership in the Global Economy

April 3rd, 1998

12th Annual
OEOC
ESOP Conference

The 12th Annual

OHIO EMPLOYEE OWNERSHIP CONFERENCE

Keynote Speaker

William Greider

Award Winning Author & PBS Commentator

Employee Ownership is...

- Saving good paying jobs
- Expanding enterprises
- Broadening capital ownership
- Rewarding high performance

when: **Friday, April 3, 1998**

where: **Akron Hilton Inn West**
Fairlawn, Ohio *(off I-77)*

Mark Your Calendar

Panels include: *Sub-S ESOPs, Management Succession, Employee Participation, Valuation & Trustee Issues, Buyouts to Avert Shutdown, Health & Safety, and much more*

Ohio Employee Ownership Conference

$30.00 Network Members (before 3/15/98)
$40.00 non-Network (before 3/15/98)
$60.00 (between 3/16/98 - 3/31/98)
$90.00 at the door

Name:________________________

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OEOC

Ohio Employee Ownership Center
309 Franklin Hall • Kent State University • Kent, Ohio 44242
330-672-3028 *(phone)* • 330-672-4063 *(fax)*

Ten Year Celebrations for Two Ohio ESOPs

The employee-owners of **Joseph Industries**, a 100% employee-owned subsidiary of Fastener Industries, celebrated the 10th Anniversary of their ESOP on October 1, 1997 with a month long round of events. Activities included a pancake breakfast prepared by the firm's managers, an ESOP poster contest, a rib-roast at a local park and morning news show coverage on Cleveland television. Earning the preferred vendor Qualitas Award from New Holland, Inc. for high quality and performance added to the celebration.

The Eagles, Joseph's new ESOP Communications Committee, organized many of the anniversary activities. The group's mission is "to promote what we've got which is something good." With its 50 employees in Streetsboro, the firm remanufactures torque converters, transmissions, and engines for construction and material handling vehicles.

Reuther Mold also celebrated the 10th anniversary of their ESOP this fall with a Sunday afternoon cookout for employees, families, and friends and a special tribute at the Annual Shareholder's meeting. As Karl A. A. Reuther, the firm's former president who established the ESOP, noted "our ESOP has improved communication, employee empowerment, and cooperation here at Reuther. For us, it's been a process of learning by doing." Son Karl and the firm's current president is also committed to continual learning and over 4,000 classroom education hours in basic work skills have been completed by the firm's 112 workers over the past 18 months.

Pat Leach, a material handler with 20 years of service, won Reuther's 1997 Vision Award for his spirit of service. Leach is often the first person that suppliers and customers meet. Reuther Mold, which is 38% employee-owned, makes custom molds for the rubber, airline, and other industries. □

Reuther worker-owners proudly show the firm's new shop equipment to U.S. Representative Tom Sawyer (14th District).

News of t

Ohio's Employee-Ow

Ohio's Employee-Owned Network provides a forum for th from each other how to make employee ownership work networking opportuities, roundtables, and training sessio

Benefits of Company Membership

Representatives from member firms revisit the mission and purpose of their Network each year at the group's Annual Meeting, and start the annual goal-setting process. This year members expressed the following views on the purpose which the Network serves for their firms:

- Provides frequent company-to-company and employee-to-employee networking which builds long-standing relationships;
- Encourages mentoring among aspiring, new, and mature ESOPs for inter-company consulting assistance and the exchange of views and ideas; and
- Offers educational forums on building a hands-on employee ownership corporate culture with a focus on needs-based problem solving, promotion of best practices, and an exploration of the competitive advantages of ESOPs.

'98 Goals and Programs

Based on member input, both at the annual meeting and in a follow-up member planning survey, a number of new programming goals have been pursued:

- *ESOP Communication Committee training sessions for team and committee members with responsibilities to promote their ESOP and an ownership culture at their firm;*
- *Update the Advanced ESOP Issues Workshop with sessions for trustees, ESOP Administration Committee members, and board members; and,*
- *Organize forums on Amending Your ESOP Plan and Exploring How to Manage ESOP Stock Repurchase through a Multi-Company ESOP Fund.*

The '98 schedule also reflects an interest in continued sponsorship of the Ohio Employee Ownership Conference, the Employee Owner Leadership Development Retreat, financial education, a CEO Retreat, and many other programs such as training for front-line leaders on their changing roles. *See the enclosed **'98 Network Schedule on page 14** for the 1998 program highlights!*

e Network

ed Network's Mission

working at all levels in employee-owned businesses to learn re effectively at their firms and to organize multi-company which address the unique challenges of ESOPs.

Frontiers of Financial Training

Ask the leaders at employee-owned firms what their most important role is and most all of them will say 'providing the big picture to employees.' This was one finding of a survey of front-line leaders within ESOPs in Ohio. In most ESOP companies the employees ask their leaders questions about the financial performance of the business, but almost half (over 48%) of the front-line leaders reported being unable to answer their questions. Not surprisingly, over three-quarters of the leaders reported that they would like more education and training in how to understand their company's financial reports, in how to effectively present this information to employees, and in how to respond to their questions.

Thirty-two companies have so far participated in the Network's **Doing Financial Training in ESOP Companies: Financial Train-the-Trainer Workshop**, offered over the past few years.

This program, based on the Center's Financial Terminology Workshop (Track B at the Employee Owner Retreat) educates employees about financials and provides the materials, including workbooks, overhead slides, interactive games, and instructor's manual, to plan, customize, and deliver successful in-company training programs.

Marv Hartsfield, president of Concrete Technology with participants at a tour of CTI held prior to a Network forum

In the midst of an economy going full throttle and considerable growth, these firms are making a serious effort to explore ways to educate everyone at the company to understand the financial side of the business. Educational formats vary. Some firms require all employees, even line managers, to participate in formal classes, others use a more informal approach. Either way, a spirit of experimentation and fun appears to be a key element of successful in-house financial training. Continual learning is promoted through the adoption of gainsharing and other types of performance-based bonus systems, as long as a transparently straightforward and meaningful bonus formula is used.

Multi-Company Retreats

'Going off-site' is often the preferred setting for group development because being relaxed and having fun facilitates open dialogue and deeper thinking, listening, focus, and attentiveness. Several of the Network programs, including the annual Employee Owner Retreat and the CEO Retreat build on this dynamic. For both events, an important value is the opportunity for people to meet with their peers from other ESOPs who wrestle with the same kinds of problems and issues and aspire to similar goals.

Participants at the 1997 CEO Retreat sponsored by Ohio's Employee-Owned Network. The next CEO Retreat is scheduled for June 18 - 19, 1998

What do retreat participants bring back to work? New ideas on ways to approach situations, a broader perspective on common problems and complaints, a new yardstick for evaluating their own company's efforts, a new appreciation for the achievements of their own firms, and a new network of ESOP associates that are just a phone call away.

Amending Your ESOP Plan

Rumors of an increase in government audits of employee stock ownership plans is often heard. This adds to the concern that many ESOP companies face in administering their plans. In many firms employee owners undertake unfamiliar fiduciary roles for the plan; a fiduciary is one who has a legal obligation to serve the interests of others, i.e. the plan participants. Other firms weigh the advantages and disadvantages of administering their plans in-house or with the help of an outside third-party plan administrator.

Amending Your ESOP Plan will be the topic of one of the Network's forums in 1998. Many firms are concerned about the plan amendments as their circumstances and the legal environment for ESOPs changes. The need for ESOP plan amendment seems to be an inevitable concern for some firms and a continual process for others. One firm at a forum undertook three amendments during their first four years. □

Best Wishes Bob!

Bob Bracci, a friend of Ohio's Employee-Owned Network, retired this fall from his position with The James B. Oswald Company in Cleveland. An enthusiastic believer in employee ownership and in people, Bob led efforts at the Oswald Company to built an ownership culture with innovative spirit. We appreciate his support of the Network and his willingness to share his experiences at Oswald at many forums and conferences over the years.

1998 Ohio Network Schedule

January 21-22, Hudson
The Changing Role of Front-Line Leaders
Designed for supervisors and other leaders with responsibilities to encourage involvement and lead change efforts. Communication and conflict management skills are explored.

February 19, Kent
Special Topic Forum
Can ESOPs establish a joint fund as a secondary market for the repurchase of ESOP shares?

February 23 & 24, Hudson
Teaching Financials to Employee Owners:
A Financial Train-the-Trainer Workshop
Session on how to teach others a step-by-step introductory course on understanding financial information.

March 18, Columbus
CEO Roundtable
Half-day discussion of current issues and timely topics.

April 2, Akron **& June 11,** Cincinnati
ESOP Communication Committee Training
A workshop for committees and teams responsible for communication and education to promote the ESOP and an ownership culture at their firms.

April 30, Ashtabula
Safety Management Forum
Learn about Plasticolors, winner of the Governor's Award for Excellence in Safety, & their process for safety improvement and resultant cost-savings.
Hosted by Plasticolors

June 18-19, Atwood Resort *(South of Canton)*
3rd annual CEO Retreat
Interactive sessions and informal presentations on preselected topics of common concern.

August 20, Columbus
Financial Terminology Workshop
Learn the basics of financial statement terms found on the balance sheet, profit & loss, and cash flow statements, through exploring a simplified ESOP company's operations.

August 20, Columbus
Financial Analysis Workshop: Learn several basic tools of financial analysis; concepts include the operating cycle, working capital, cash flow and ratio analysis.

September 17, Dayton
ESOP Administration Forum:
"Amending Your ESOP Plan"
How and why should you amend your plan? What's included in a plan audit? Guidelines for plan amendment to achieve compliance, make improvements, and avoid IRS and DOL audits.

October 15-17, Atwood Resort *(South of Canton)*
Employee Owner Retreat
Participants learn ESOP basics, team participation, meeting skills, and group problem-solving. Skills and knowledge applied through case exercises. Concurrent one-day tracks:

- **ABC's of ESOPs:** Basic introduction to ESOP processes, mechanics, and ESOP-related issues and concepts.
- **Financial Terminology:** Basics of the balance sheet, profit & loss, and cash flow statements.
- **Financial Analysis:** Basic tools of financial analysis, operating cycle, working capital, & ratio analysis.

October 29, Kent
CEO Roundtable &
HR Representatives Roundtable
Separate half-day discussions with open agenda on timely topics selected by participants.
Held in conjunction with the Annual Meeting of Ohio's Employee-Owned Network

November 19, Kent
Advanced ESOP Issues Workshop
Training for ESOP trustees, ESOP Administration Committees, and nonmanagerial directors on fiduciary roles, responsibilities, repurchase obligation, and valuation issues. *Breakout sessions by function for discussion with peers.*

Subchapter S ESOPs - Opportunity & Controversy

"Why are they talking about changing our company into a Sub-S corporation?" asked one confused employee owner at a 100% employee-owned Ohio firm recently. "Aren't S corporations just for companies that employ a couple of people or own real estate?"

The new subchapter S corporation ESOP is causing many employee-owned companies to reexamine their incorporation status. It's also stirred up considerable controversy that may attract Congressional scrutiny. Employees in ESOP companies need to know about this issue.

What is a Sub-S corporation?

The Subchapter S corporation combines the legal protections of the corporation for shareholders with the tax status of a partnership. While shareholders are protected as individuals against the liabilities of the Sub-S corporation, the Sub-S company does not pay separate corporate income tax; instead its income is taxable to individual shareholders in proportion to their ownership. In effect, it's a partnership with legal protection for the owners of the corporation. So it has become a very popular form of ownership for small companies.

Today there are about 2 million Sub-S corporations as compared to about 6 million C corporations. (The "C corporation" is what we think of as the standard corporation.)

Prior to 1996, the law did not permit qualified benefit plans to own stock in S corporations. However, the law was changed in 1996, so that benefit plans could own Sub-S stock effective January 1, 1998. But the initial Sub-S legislation was technically flawed and it was significantly amended by the Taxpayers Relief Act of 1997. The 1997 legislation added a significant tax advantage in exempting ESOPs from the "unrelated business income tax" on Sub-S earnings.

This tax provision, which went into effect January 1, 1998, is causing a huge stir in the ESOP world for rather different reasons than Congress intended.

The Subchapter S ESOP

The intent of this provision was to permit S corporations, which are uniformly closely held, to establish ESOPs without changing their incorporation to a C corporation.

While C and S corporations differ in a number of ways, the key difference in tax terms is that the profits of C corporations are taxed at the corporate level and then again at the individual level when they are distributed to individuals as dividends or as capital gains when they sell. By contrast, the profits of S corporations are taxed only as though they were individual earnings, and Sub-S corporations typically distribute enough earnings to shareholders to pay their individual taxes on the corporation's retained earnings.

The Sub-S ESOPs lack many of the tax advantages of C corporation ESOPs. Specifically, corporate contributions to Sub-S ESOPs are limited to 15% of ESOP participants' pay (instead of the 25% limit for leveraged ESOPs), that 15% limit **includes interest**, dividends on Sub-S ESOP shares are not tax deductible, and sellers to Sub-S ESOPs cannot get the 1042 capital gains deferral by rolling their proceeds over into qualified replacement securities. They are, however, relieved of the "unrelated business income tax" which burdens other qualified benefit plans which own Sub-S shares.

Consequently, most observers thought that the Sub-S ESOP was likely to be used more as a contributory benefit plan and less as a tool for ownership succession, except in cases where the owner had little capital gains.

At the Ohio Employee Ownership Center, we expected that the most significant uses in Ohio would be (1) to build up cash in the S-ESOP which then could be used when the S corporation converted to a C corporation to buy out exiting shareholders (who could now get the capital gains deferral because they were selling to an ESOP in a C corporation). In effect, the S-ESOP would be used to pre-fund the C-ESOP purchase from retiring owners. (2) The S-ESOP also offers a nice avenue to involve employees as ownership partners in an S corporation while retaining the tax advantages of the S corporation for the old owners.

Others thought that subchapter S ESOPs would be few until they too permitted the 1042 capital gains rollover for sellers.

The exemption of Sub-S ESOPs from the "unrelated business income tax" on Sub-S earnings opened other doors.

Unintended consequences

One of the barriers to qualified benefit trusts owning Sub-S shares has been the fact that the trust had to pay a tax on its share of Sub-S earnings at the "unrelated business income tax" rate. That tax rate was typically the top individual rate, or 39.6%.

As mentioned above, effective January 1, 1998, the new tax law gives ESOPs an exemption from this tax.

The intent of this special exemption was to encourage the creation of ESOPs in existing Sub-S corporations. The unintended consequence, however, has been to encourage existing closely held ESOP to consider changing its incorporation from C to S.

The reason: the ESOP's share of Sub-S earnings is tax free. Thus, for example, if an ESOP owns 35% of a profitable C corporation, all the profits of the corporation are taxable. On the other hand, if the company changes its registration to a Sub-S, 35% of the company's profits are suddenly tax free.

Or take the 100% employee-owned C corporation. By changing its registration to a Sub-S, it avoids all corporate income taxes!

Eventually, of course, employees will cash out their ESOP shares and pay taxes, but that is far down the road.

Changing a company's election of incorporation from C to S has a number of other consequences, some of them quite problematic. (For an account of these, see David Ackerman, "ESOPs and S Corporations" appearing in the Winter 1998 issue of the *Journal of Employee Ownership Law and Finance*.) Still, "not to change to a Sub-S borders on fiduciary malfeasance," one trustee of a 100% ESOP-owned C corporation told us. "For your attorney not to recommend it could be construed as malpractice."

Will the law stand?

So the law as it currently stands could slash taxes paid by partial ESOP companies and eliminate them entirely for 100% ESOP-owned firms if they change their incorporation.

Will this provoke Congressional scrutiny and cutbacks in the Sub-S ESOPs because of a revenue hemorrhage?

That probably depends on what the tax loss turns out to be.

The ESOP Association's Michael Keeling believes that it will be somewhat higher than the original Congressional revenue estimate of $100 million over five years -- which didn't take into account existing C corporations converting to Sub-S incorporation to get the ESOP tax break. Still, he doesn't think it will be a great deal higher. Keeling points out that closely held companies pay only about 15% of the corporate income tax anyway, and conversion is complicated and often troublesome.

Keeling anticipates that few ESOP C corporations will convert to S corporations except when they are 100% employee owned. "Attorneys talk about minority ESOPs converting, but I just don't see it happening. I've talked to a fair number of 100% employee-owned ESOP companies and to a couple of other majority ESOP companies, but not a single minority ESOP has called me to discuss changing its incorporation."

Keeling says that the 1996 changes in the S corporation laws surely caused far more C corporations to change their election and more loss of tax revenue than the ESOP provisions ever will. "But after all," says Keeling, "the purpose of those changes was to make S corporations more attractive."

"Besides," says Keeling, "this is not a tax exemption. It's a tax deferral. When employees cash out, they will have to pay their taxes."

In the meantime, it looks like a good deal for some ESOP participants. □

Using the Sub-S Corporation for direct employee ownership

Some smaller Ohio employee-owned companies have been incorporated as Sub-S corporations in the past without ESOPs. These companies have simply used the Sub-S structure to make most -- or all -- employees direct shareholders, either through initial investment or through a regular investment every pay.

This achieved all the non-tax advantages of ESOPs without the costs of setting up and maintaining a qualified plan, just as a worker cooperative does. However, this Sub-S form permitted much more inequality in ownership than a co-op does, and also made it much easier to bring in outside investors. So if a company was too small for an ESOP or the profits too low to make an ESOP worthwhile, direct employee ownership through a Sub-S made sense.

In the past, a major limitation on the Sub-S form of direct employee ownership was the fact that a Sub-S could not have more than 35 shareholders. The new law raises the number of shareholders in a Sub-S to 75.

Targeting Investment, Anchoring Capital

The bulk of savings in America today is in the form of pension funds. How that money is invested makes a lot of difference both for tomorrow's retirees and for today's employees.

American pension fund investments have fueled excesses. In the 1980s, "institutional investors" -- the folks who invest your pension funds -- poured money into the "mergers and acquisitions" craze which sank over $1 trillion in non-productive speculation. More recently, go-go institutional investors have been emphasizing "emerging markets" and the "Asian tigers." Lots of money can be made (and lost) in these investments. That makes a difference for our living standards when we retire.

But what about our living standards today while we are working? And how about our kids' living standards tomorrow?

Those require long-term productive investment here at home today.

The Canadian example

Over the last three years, *Owners at Work* has written extensively about Canadian labor-sponsored investment funds which invest Canadian employees' savings locally and regionally.

These funds started in Quebec in 1983 when the Quebec trade unions, disturbed by the flight of capital from Quebec and the resulting job loss, sought to stabilize investment and stem capital flight from the province. Since then, the Quebec Solidarity Fund has grown to more than $2 billion and has become the largest single source of venture capital in Canada.

Focus on Investment Funds

Similar funds have been established in most other Canadian provinces with bi-partisan support. These funds pool the Canadian equivalent of IRAs.

The Canadian funds invest locally. Generally they target small and mid-market companies. Several of the Canadian funds, including the Crocus Fund in Manitoba, have a strong preference for "high road" companies which emphasize worker health and safety, employee participation, and employee ownership.

Given the opportunity to place their retirement savings locally, hundreds of thousands of working Canadians chosen to do just that. The Canadian funds have filled the gap for local investment. They combine a reasonable rate of return with jobs for your community.

The American discussion

A similar discussion is beginning in the United States. Since John Sweeney's reform team took over at the AFL-CIO, there has been rising interest by the US labor movement in the Canadian fund system, and in other strategies to insure community reinvestment. In the employee-owned community, after 15 years of effort, venture capital funds targeted to employee ownership are developing.

How do these targeted investment funds work?

Here are profiles of four. Two of them are national investment funds raised from conventional capital sources -- Churchill Capital's ESOP Capital Partners and American Capital Strategies fund -- which have a preference for ESOPs but may invest in other companies as well. The other two -- the AFL-CIO Housing Investment Trust and Building Investment Trust and the Ohio and Pennsylvania building trades ERECT Fund -- are union-sponsored funds which target their investment to unionized construction of housing and commercial real estate, and which raise their money primarily from multi-employer union pension funds.

Churchill's ESOP Capital Partners

Churchill Capital established the *Churchill ESOP Capital Partners Fund* with Houlihan Lokey in 1995. Although it does not include any union pension money, this $188 million fund was raised from diversified sources: corporate and public pension funds, foundations, endowments, financial institutions, colleges and universities and high net-worth individuals and families.

Churchill provides equity (common and preferred stock), subordinate debt and senior debt. Its investment size ranges between $5 million and $25 million; the preferred size is between $10 and $15 million, according to Barry Linquist, fund manager. Churchill ESOP Capital Partners will typically require representation on the board and also prefer to be stockholders in the companies they finance. Churchill's equity ownership ranges anywhere from 10% to 70%.

Churchill facilitates the sale of private companies to their employees through Employee Stock Ownership Plans (ESOPs). It also provides capital for employee-owned companies to support internal growth or for acquisitions. Since its establishment in 1995, Churchill ESOP Capital Partners have provided financing to eleven companies, including four ESOP acquisitions and one ESOP recapitalization. And, as Linquist points out, "in those companies where there is no ESOP at day one -- there will be the potential for an ESOP in the future."

Churchill's fund typically invests in manufacturing, fabrication, distribution and service companies located in the United States. They have dealt with companies in California, Illinois, Missouri, Pennsylvania, South Dakota, and Rhode Island. Linquist reports that the portfolio to date has "exceeded their expectations in terms of performance."

American Capital Strategies

American Capital Strategies (ACS), a buyout and finance company, raised $155 million by selling common stock in an initial public offering on August 29, 1997. By and large the funds came from institutional investors, rather than multi-employer union pension funds. Since ACS can leverage the capital they raised, they estimate that they can channel about $450 million in investment.

ACS looks to invest from one to twenty million in small to medium-size companies that have $10 to 200 million in revenue. ACS is prepared to lend and invest in buyouts, acquisitions, expansion, liquidity, repurchase obligation financing, restructuring, and purchases out of bankruptcy for both employee-owned and non-employee-owned companies. ACS can do both senior and subordinate debt as well as equity financing. It can lead a transaction as principal or can fund someone else's transaction. ACS does not intend to manage the companies it finances but is prepared to assist companies to solve problems when they surface. However, since ACS invests in equity, it will be a stockholder in the companies financed. Malon Wilkus, principal at ACS, says "we are much more interested in being a long-term partner with the company and we are unusual in that we can invest on an interest-only basis up to ten years."

ACS, as Wilkus says, has "been dedicated to funding employee ownership for a dozen years and has done more 'change of control' majority employee-buyouts than any other company." He believes that with the funds raised through the public offering, ACS will dramatically increase its ability to fund ESOP transactions. In situations where ACS is the principal, there will almost certainly be an ESOP. Although there is no requirement for firms to be unionized, many of their transactions are in support of union-led employee buyouts. American Capital Strategies' success in raising money through a public offering is a real testament for the support and acceptance that employee ownership has in the financial communities.

Housing Investment Trust/Business Investment Trust

In 1964, the AFL-CIO set up the Housing Investment Trust

(HIT). The aim was to "do good while doing well": to build housing and create union construction jobs, while achieving sound and prudent returns for union pension funds. In 1988, the Business Investment Trust (BIT), which invests in commercial real estate construction, followed.

The HIT and BIT were designed as a defensive capital strategy for the unionized construction trades. At the same time, they constitute a "high road" strategy of high skill labor and high quality construction.

While neither has become a major player in construction financing market nationally, both have been successful in their niches. In 1996 HIT committed $360 million to build 6,300 housing units and to create 4,300 union construction jobs. Today, HIT has assets of $1.5 billion. It returned 10.3% in its last fiscal year and averaged a 9.6% annual return over the last ten years to its pension fund investors. The BIT has returned a more modest 7.8% since it was set up in 1988.

While these returns don't put the national union construction funds at the top of the Morningstar ratings, their track records suggest that the "high road" strategy has been a prudent investment for the pension funds. Not only has this investment been considerably more prudent than those which put funds in Asian stock funds or Hong Kong real estate, it creates jobs and builds houses for our neighbors.

Employee Real Estate Construction Trust (ERECT) Fund

Over the years, one complaint by the local construction unions was that their money could end up in Miami and Los Angeles, rather than Toledo and Cleveland. The consequence has been the development of local funds.

The ERECT Fund in Eastern Ohio and Western Pennsylvania has raised $51 million from the AFL-CIO building trades unions, individual local unions and trade councils for construction projects in the region since its inception in 1988. It is raising another $20 million in 1998 for projects already committed. ERECT includes Taft-Hartley multi-employer pension fund money. It requires a commitment to using 100% union contractors from the developers financed, and it invests in projects in the area where the funds are raised. The typical ERECT project is between 2 and 10 million dollars.

U.S. Bancorp Trust's Rick Chimelewski, who manages the fund, works with developers in trying to identify projects that need to be financed and then tries to get capital from trade union investors and other pension funds such as large suppliers or vendors. U.S. Bancorp will then finance the permanent mortgage on the property if the developer pays the going rate. They like to target an area and local trade unions before seeking out a project.

ERECT is interested in urban redevelopment. One current $10 million project in the Pittsburgh area arose from union, management, and government cooperation. In this deal, ALCOA donated a building to be used to start businesses and the ERECT fund is financing the renovation of the building.

One of Chimelewski's goals is to diversify the portfolio more geographically across Pennsylvania, Ohio and surrounding states. (To date, almost 65% of the projects have been in the Pittsburgh area, 13% in Erie, and 23% have been in eastern Ohio.) A second longer range goal is to seek additional investors. At this point, according to Chimelewski, the ERECT fund has no deficiencies or delinquent loans.

Conclusion

These targeted investment funds focus on a particular ownership form (Churchill's and ACS's focus on ESOPs), on a particular sector (HIT/BIT's focus unionized construction), or on a sector and region (ERECT's focus on unionized construction in Western Pennsylvania and Eastern Ohio).

None of these orientations have been typical of Wall Street. Still, these funds seem to provide competitive returns suitable for prudent pension funds. "High road" investment strategies which focus on investment in high skill jobs, high quality construction, and broadened ownership apparently can meet employment and community objectives today and pension objectives tomorrow.

Moreover, geographically anchored investment funds offer one appropriate response to economic globalization. If we want to keep jobs at home, we need to invest locally. □

ESOP & Labor Investment Funds

Organization / Location	Name of Fund	Size of Fund	Size of Deal	Contact
Churchill Capital *Minneapolis, MN*	Churchill ESOP Capital Partners	188 million	5 million - 25 million	Barry Linquist 612-672-6625
American Capital Strategies *Bethesda, MD*	American Capital Strategies	155 million	1 million - 20 million	Malon Wilkus 301-654-6714
U.S. Bancorp Trust *Johnstown, PA*	Employee Real Estate Construction Trust Fund *(ERECT Fund)*	51 million	2 million - 10 million	Rick Chimelewski 814-533-5148

Focus on Investment Funds

When Employee Ownership Makes Sense

The number of Employee Stock Ownership Plans (ESOPs) in the United States has increased from approximately 200 employing 250,000 workers in 1974 to over 10,000 established ESOPs in 1997 covering an estimated 11 million employees. This dramatic increase is due in large part to the implementation of ESOPs as: ***a competitiveness strategy, a business succession plan, a strategy for tax-advantaged corporate financing and a means to avert a plant shutdown.***

Employee Ownership in the United States

The mushrooming of employee ownership over the last decade is due in large part to the legal recognition of ESOPs in the Employee Retirement Income Security Act of 1974 (ERISA). This act gave statutory definition to a concept introduced by Louis Kelso and Patricia Hetter in *How to Turn Eighty Million Workers Into Capitalists On Borrowed Money* (1967). Kelso and Hetter believed greater economic growth could be achieved by a broadening of corporate ownership. Since capital is the primary source of an affluent society, "universal capitalism" is a prerequisite for real economic expansion. Corporate ownership had concentrated wealth and a vehicle was needed to encourage a broader population to accumulate shares of corporate ownership so individuals could gain a viable share of corporate wealth which they in turn could use to develop their personal wealth. As the number of people with multiplying net worth grew, so would the economy grow at a substantially increased rate. Kelso and Hetter proposed to motivate corporations via tax incentives and finance the leveraged acquisition of new capital through the discount window of the Federal Reserve. Less than a decade later their proposal was made part of U.S. economic policy as Congress awarded ESOPs tax-favored status in the Employee Retirement Income Security Act (ERISA) of 1974.

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How an Employee Stock Ownership Plan Works

An Employee Stock Ownership Plan, or ESOP, is a tax-qualified employee benefit plan that invests primarily in stock of the sponsoring employer. ESOPs must meet governmental regulations issued by the U.S. Department of Labor (DOL) and the Internal Revenue Service (IRS). The simplest way to understand how an ESOP works is to conceptualize it as a variation of a traditional profit-sharing plan. Contributions made to the ESOP are tax deductible and income earned by the ESOP is tax-deferred. Since the ESOP is a retirement plan, employees are not taxed on their accounts until the money is withdrawn.

So what is the difference between an ESOP and the traditional profit-sharing plan or other pension plans? There are two key distinctions:

- An ESOP is the only qualified employee benefit plan that can borrow money; *and*

- An ESOP invests primarily in employer stock and may own anywhere from a fraction of 1% to 100% of a company's stock, whereas traditional pension plans are subject to stricter diversification requirements.

Similar to other pension plans, ESOP stock is held outside the company in a trust that is a separate legal entity. The trustee has a fiduciary obligation to act in the best interest of all employee participants in the ESOP. Within this trust, separate accounts are maintained for individual stockholders. In a leveraged situation, each year the company pays back part of the principal on its ESOP loan. The loan payments are made through the ESOP to the bank and are therefore tax deductible business expenses, just like other contributions to a pension plan.

Tax Incentives for ESOPs

The most significant tax incentives established by Congress to encourage companies to set up ESOPs are:

(1) An individual who sells 30% or more of his or her stock in a closely-held corporation to an ESOP may defer the capital gains tax if the proceeds of the sale arereinvested in other domestic securities. The income tax on the gain would be due upon the sale of the replacement property but if the replacement securities pass into the estate, the transfer to any beneficiaries is treated as a stepped-up basis and no capital gains is ever paid.

(2) If the corporation uses an ESOP to obtain a loan, it may **deduct the principal as well as the interest payments** on the loan. For many companies, this is a excellent strategy for corporate financing and can cut borrowing

costs by one-third. ***Imagine if you could do this on your home loan!***

(3) Dividends paid in cash on shares held by an ESOP are deductible by the sponsoring corporation if they are passed through to the participants in the plan or they are used to pay off a loan taken out to finance the purchase of company stock.

(4) Participants in the ESOP have tax-sheltered accounts until their benefits are withdrawn, typically at retirement.

Employee Ownership Makes Sense . . .

Whether you are exploring employee-ownership as a strategy for stable business succession or a tool for tax-advantaged corporate financing, you should begin by assessing your philosophical beliefs and personal comfort level with the underlying concepts of employee-ownership. If communicated effectively and coupled with participation, employee ownership can also be a powerful tool to motivate employees.

. . . As a Competitiveness Strategy

In addition to the tremendous tax incentive and financing opportunities there are also many work performance advantages to employee ownership. The General Accounting Office's

The General Accounting Office's (GAO) study of ESOP firms found that the combination of employee ownership and employee participation yielded substantial improvements in firm performance.

(GAO) study of ESOP firms found that the combination of employee ownership and employee participation yielded substantial improvements in firm performance. There are numerous research studies that indicate this direct and positive correlation between high levels of employee participation on the shop floor in employee owned companies and increased performance and production.

. . . As a Business Succession Plan

Most employee-owned firms are successful and profitable businesses. Approximately 58 percent of Ohio ESOPs instituted employee ownership primarily to purchase shares from retiring owners.

As previously mentioned, a retiring owner who sells thirty percent (30%) or more of the company's stock to an ESOP trust may defer capital gains if the proceeds of the sale are reinvested in other U.S. operating companies. This tax incentive is an attractive strategy for the owner to begin exiting the business while still maintaining control and taking care of his or her employees and the community by retaining jobs in the long haul.

A retiring owner who sells thirty percent (30%) or more of the company's stock to an ESOP trust may defer capital gains if the proceeds of the sale are reinvested in other U.S. operating companies.

. . . As a Strategy for Tax-Advantaged Corporate Financing

Unlike profit-sharing and other employee benefit plans, ESOPs may borrow money to purchase company stock. In fact, 10% of Ohio employee-owned businesses used an ESOP loan as the primary means to finance company expansion. This is really a tax-advantaged financing tool since the company can deduct both the principal repayments as well as interest on an ESOP loan.

After the ESOP trustee uses the loan to purchase stock from the company, the company may then use the proceeds for any acceptable business purpose such as purchasing equipment, buying another company, taking a private company public, or financing the sale of the stock. This technique will greatly reduce the company's financing costs.

. . . As a Means to Avert Plant Shutdown

ESOPs may be used as a vehicle to save jobs and anchor capital in communities when job loss threatens. Although employee buyouts to avert plant shutdown are more common in Ohio than any other state, only five percent of Ohio firms instituted employee ownership primarily to avert job loss. Turning around troubled companies through employee ownership is a difficult but worthwhile undertaking. There are approximately 300 companies that were bought by employees through an ESOP loan to avert a shutdown or major job loss in the United States. A few of these companies are: Northwest Airlines, Weirton Steel in West Virginia, and Bliss-Salem in Salem, Ohio. These companies and many others across the U.S. would no longer be operating today if they had not become employee-owned.

How to Get Started

If you are considering an ESOP for your company you may want to begin your exploration by talking with folks from other employee owned companies similar in size and culture. Sometimes this is the simplest and best way to gain a true understanding of all the costs and benefits of establishing an ESOP.

You may also want to search the Internet, attend seminars, and research journals to determine if employee-ownership fits your philosophical beliefs. If you find yourself comfortable with the concept, explore various alternatives in structuring an ESOP. Finally, if you want to use employee ownership to increase competitiveness, it is advisable to establish open channels of communication with the employees and maintain a consistent level of input for employee participation. □

OEOC Goes Online

The Ohio Employee Ownership Center (OEOC) is online! Our web page can now be accessed at ***http://www.kent.edu/oeoc***. The site provides basic information about the mission and activities of the Center and employee ownership to the online community, all with a few keystrokes and the click of a mouse.

The navigation frame allows the user to click on and access each of the primary pages. It also allows the user to quickly send e-mail to the Center with questions about employee ownership or suggestions for the site.

Accessing the new web site will take users to the Center's *index* or *home* page where they may choose from one of twelve areas to explore. Some of these areas include:

- ***About The OEOC*** provides an overview of the OEOC mission and activities.
- ***The OEOC Staff*** introduces the people who make the Center work.
- ***Upcoming Events*** allows access to up-to-date information about Center and Network sponsored events.
- ***Buyout Assistance*** offers basic resources pertaining to employee and management buyouts.
- ***International Programs*** provides an overview of the OEOC's work internationally.
- ***Ohio's Employee Owned Network*** offers a look at what Ohio's employee owned community is doing and links to Network member companies.
- ***Ownership Training*** provides an overview of the training offered by the Center to employee owned companies.
- ***Publications & Research*** offers a listing of Center publications and research, as well as access to selected OEOC publications.
- ***Succession Planning Program*** gives an overview of the OEOC's efforts to aid in the small business succession planning process & includes dates of upcoming seminars.
- ***Links To Other Sites Of Interest*** allows easy access to sites of other organizations active in the employee ownership and economic development communities.

Navigating the site is fairly simple. A user can move past the index or home page to one of the *links* by clicking on the appropriate graphic. Along with the page of the selected topic, a navigation bar or frame will appear along the bottom portion of the screen. This navigation frame allows the user to click on and access each of the primary pages. It also allows the user to quickly send e-mail to the Center with questions about employee ownership or suggestions for the site.

Check it out. And if you are not yet online, do it now! We hope to see you there! □

Try OEOC's new site and let us know what you think.

http://www.kent.edu/oeoc

Combine employee ownership and graduate study at the OEOC

The Ohio Employee Ownership Center has a graduate fellowship available, starting fall 1998, for an MA or PhD student interested in pursuing a graduate degree in political science or public administration while taking part in the activities of the OEOC. The assistantship provides a full academic year graduate stipend and a supplemental fellowship (totaling $10,000 at the PhD level or $9,000 at the MA level), and full tuition including out-of-state fees. Additional summer funding may also be available.

As the OEOC is the only university-based employee ownership program in the country, this fellowship provides a unique opportunity to combine theory and practice in employee ownership with graduate study. The OEOC promotes employee ownership in Ohio by providing information, outreach, and preliminary technical assistance to employees, managers, and business owners interested in employee ownership; and through ownership training and education in existing employee-owned firms. It maintains a Moscow office to support the use of employee ownership in privatization in Russia and Eastern Europe. The OEOC's staff of seven have varying backgrounds in economic development, industrial retention, conflict resolution, and adult and labor education. The OEOC has an active research and publication program.

To apply: (1) send a short letter of application discussing your interest in employee ownership and relevant background to the OEOC, 309 Franklin Hall, Kent State University, Kent, Ohio 44242; (fax) 330-672-4063; and (2) complete the KSU graduate school application forms. To obtain the forms, contact the KSU Office of Graduate Admissions (330-672-3131) or Mary Linger (tel: 330-672-2060; e-mail MLINGER@KENT.EDU). Completed applications with three letters of recommendation, writing sample, and GRE scores must be received by February 20th.

The OEOC/KSU encourages applications from women, minorities, and non-traditional students with workplace experience.

THE OHIO DEPARTMENT OF DEVELOPMENT
Labor Management Cooperation Program

Work Co-sponsored by:

COOPERATIVE CHARITABLE TRUST

OWNERS AT WORK

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OEOC
309 Franklin Hall
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Kent, OH 44242

OEOC
Ohio Employee Ownership Center

UPCOMING 1998 NETWORK EVENTS

January 21 - 22 *Hudson, OH*	**Front Line Leader Training** *Leadership for Employee Involvment*
February 18 *Kent, OH*	**Managing Repurchase through a Multi-ESOP fund**
February 23 - 24 *Hudson, OH*	**Teaching Financials to Employees:** *A financial Train-the-Trainer Workshop*
March (TBA) *(TBA)*	**Participation & Communication Forum:** *Safety Management*
March 18 *Columbus, OH*	**CEO Roundtable**
April 2 *Akron, OH*	**Company Showcase & Pre-Conference Sessions**
April 3 **Akron, OH**	**12th Annual Ohio Employee Ownership Conference**
June 11 *Cincinnati, OH*	**ESOP Committee Training**
June 18 - 19 *Atwood, OH*	**CEO Retreat**
August 20 Columbus, OH	**Financial Terminology & Financial Analysis Workshops**

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

OTHER EVENTS

February 26 & 27 *La Jolla, CA*	**Foundation for Enterprise Development** *Annual Conference* *call 619-459-4662 for more information*
March 18 *Columbus, OH*	**Ohio ESOP Association** *Ohio Chapter Conference* *call 614-469-0001 for more information*
April 20 *Cleveland, OH*	**National Center for Employee Ownership** *ESOP Workshop* *call 510-272-9461 for more information*
April 22 - 24 *Minnapolis, MN*	**National Center for Employee Ownership** *Annual Conference* *call 510-272-9461 for more information*
May 20 -22 *Washington D.C.*	**ESOP Association** *Annual Conference* *call 202-293-2971 for more information*

April 3rd, 1998
Mark Your Calendar
Akron, Ohio

Call today to register
330-672-3028

April 3rd, 1998
12th Annual
OEOC
ESOP Conference