The Ohio Employee Ownership Center:
How a Support Organization Can Help to Build an Employee Owned Sector

Jacquelyn Yates
Associate Professor of Political Science
Research Director
The Ohio Employee Ownership Center
113 McGilvrey Hall
Kent State University
Kent, Ohio 44242
email yates@salem.kent.edu
Tel. 330-385-0130
http://dept.kent.edu/oeoc or email **oeoc@kent.edu**
Tel. 330-672-3028

Prepared for the
Conférence de Presse Introduire l'Actionnariat Salarié
dans les Entreprises Wallonnes
Namur, Belgium March 26, 2004

The Ohio Employee Ownership Center (OEOC) was founded in 1987 as part of Ohio's commitment to economic development. Over the past 17 years, it has grown into a multifaceted support organization for employee ownership, offering a variety of programs to assist in the creation of new employee-owned companies and in improving the management of established companies. It has also established that employee ownership can be a major tool to anchor capital and jobs locally as part of an overall economic development strategy.

Since 1987, the OEOC has worked with 463 employee and company groups, employing more than 84,000,[1] exploring whether employee ownership makes sense in each case; helped employees buy part or all of 69 of these companies, retaining or stabilizing 13,654 jobs; and helped employees create more than $300 million in employee equity – stabilizing community employment, tax bases, and property values. These companies continue to create in excess of $20 million in new employee equity annually in addition to cashing out retiring employees.

The OEOC also works with a network of 61 employee-owned companies to provide a variety of training and organizational development services to improve their performance. Additionally, it provides a purchasing cooperative for these firms and administers a revolving loan fund to provide loans on favorable terms for expansion.

This record of accomplishment is a testimony to what a modestly supported public sector program can do to help employees to help themselves.

The Ohio Employee Ownership Center Today

Today the Ohio Employee Ownership Center's staff of nine assists employees and employers interested in employee buyouts, administers several state programs to promote employee ownership, provides training and advice for management and workers at employee-owned companies, circulates its semiannual newsletter to nearly 12,000 subscribers in Ohio and beyond, holds an annual conference on employee ownership with panels on subjects ranging from the latest management research to highly technical legal and financial long-term strategies for maintaining employee-ownership through more than one generation of worker-owners. The OEOC also conducts research on employee-owned companies, and most of its research and related research by others is available at no cost on the Internet, at http://cog.kent.edu or http://dept.kent.edu/oeoc. With the support of the Ford Foundation, it manages a worldwide discussion group on employee ownership that has connected practitioners, policy makers and academics around the world. Most recently, it has undertaken the management of an investment fund to provide financing for employee buyouts and expansion of existing employee-owned companies, and it is mentoring new employee ownership centers, such as the recently established Vermont Employee Ownership Center. The Center is able to provide training in any of its specialized functions, such as buyouts, organizational development and creating a network.

State programs in which the OEOC plays an administrative role include the Ohio Employee Assistance Program, the Ohio Preliminary Feasibility Study Grant Program and the Ohio Labor-Management Cooperation Program.

The Employee Ownership Assistance Program authorizes the Ohio Department of Development to provide information and preliminary technical assistance to individuals,

[1] Ohio has a population of about 11 million and a workforce of about 5.5 million. It is significantly more dependent on manufacturing than the United States as a whole, particularly in the steel and automotive industries.

companies and organizations promoting the establishment and successful operation of employee-owned firms in Ohio. The Ohio Employee Ownership Center is the state's agent to fulfill that mandate. The Program was first enacted in 1988, and reauthorized in 1994 and 2000 by unanimous vote of the Ohio legislature. It has enjoyed strong support from Ohio governors of both major political parties.

In his message to the 17th Annual Ohio Employee Ownership Conference in April 2003, Governor Taft noted, "Employee ownership and cooperative enterprises save jobs and companies, anchor capital, benefit local economies, create new wealth for employee owners and improve the lives of their families. As an economic development strategy, employee-owned companies are a positive influence to improve job security that also benefits the communities where they operate. Employee-owned companies also increase productivity and efficiency by enhancing employee motivation. They make Ohio's economy stronger."

The Ohio Employee Ownership Assistance Program also provides ownership succession strategizing for small business. Since 1996, the OEOC has coordinated the Business Owner Succession Planning Program in Northeast Ohio in partnership with the Greater Cleveland Growth Association and its Council of Smaller Enterprises (COSE), and, since 2003, also in partnership with the Corporate College of Cuyahoga Community College. The Succession Planning Program provides business owners with information they need to begin planning for their retirement, helping the owner to get fair value out of the business and take care of his/her family, while the business remains a viable Ohio employer. Sometimes the succession plan includes selling to the employees. Without planning for succession, many successful local businesses have been closed because the owner never got around to planning for retirement. To date, 444 owners of 353 small and medium-sized companies employing 28,500 workers have participated in this program.

The Ohio Employee Ownership Center also administers the Ohio Preliminary Feasibility Study Grant Program. First funded under the federal Job Training Partnership Act (JTPA), it is now part of the Workforce Investment Act's (WIA) provisions for displaced workers. Prefeasibility studies research the business and financing prospects for employees who are considering buying their firms. Without a large expense, they can indicate whether or not the business is fundamentally sound and it makes sense for employees to go ahead with efforts at a buyout. In 2002, ten prefeasibility studies were funded for employee and management efforts to explore using employee ownership to avert shutdown. These studies helped to retain 120 jobs. In 2003, seven studies were completed, helping to retain 144 jobs.

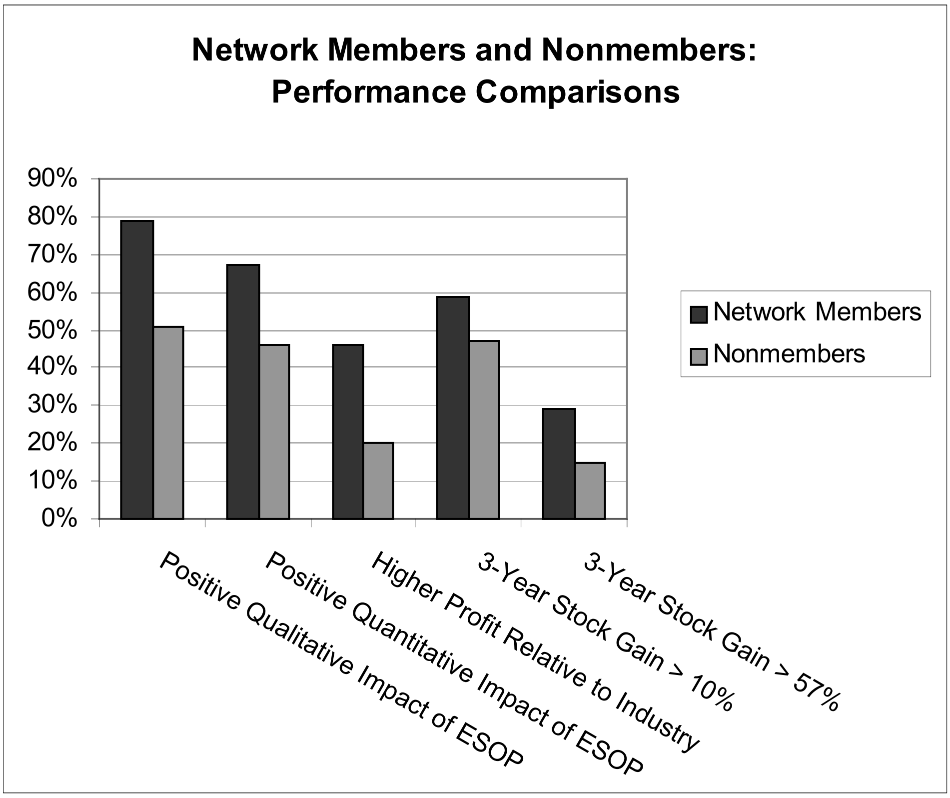
Ohio's program not only helps businesses make the transition to employee ownership, but continues to help afterwards as well. The OEOC provides some 4,000 hours of leadership training per year to employee-owners, as follow-up to encourage the long-term success of the new company. It offers training and education for every employee-owner, from the CEO to the rank-and-file worker.

As Karen Conrad, Manager of the Office of Small Business in Ohio's Department of Development explained, "the OEOC encourages the development of cooperative, high performance workplace practices in employee-owned companies through training and organizational development. The OEOC is part of a statewide network of training organizations that work with clients to provide labor-management cooperation programming. The Ohio Labor-Management Cooperation Program (OLMCP) grantees provide workplace assessments; help in the establishment of high-performance work systems and offer assistance in improving labor and management cooperation."

"The program grantees provide cost-effective training and consultation to both private and public Ohio companies and organizations," added Conrad. "This has a significant impact on Ohio's industrial competitiveness. This proven effort helps to retain jobs and encourages expansion in Ohio."

Going beyond startup assistance and training, the spirit of collaboration extends to Ohio's Employee-Owned Network, which was created in 1989 when a dozen employee-owned companies asked the OEOC to create a process for ongoing inter-company collaboration. The Network now has more than 60 company members. It sponsors a year-round series of leadership development programs through which employee-owned companies explore effective management. The annual training curriculum is set in response to what member companies say they need. Many of the training sessions are offered on an annual basis, but there are always new topics in the curriculum as member companies encounter new challenges. Feedback from Network members indicates that the opportunity to exchange ideas with other employee-owners is especially valuable.

Companies in the Network generally perform better than other employee-owned companies and there is evidence that the Network plays a role in helping them to that achievement ("Company Networks Improve Performance," *Owners at Work* 12(2), Winter 2000-2001). As shown in the table below, Network members reported better operational performance after establishing their ESOP than did nonmembers, whether that performance is gauged by easily quantified measures like absenteeism or productivity or by qualitative measures like employee attitudes or labor-management cooperation. Network members were more than twice as likely as nonmembers to report improved profits compared to other firms in their industry, and they were more than twice as likely to report substantial gains in stock values.



Source: *Owners at Work* 12(2), Winter 2000-2001

It is possible that the Network members were inclined to participative management even before they established ESOPs and became employee-owned, but they did not report that they were in a 1992-93 survey of 167 Ohio ESOP companies. Before they became employee-owned, they reported management styles, operational performance and profits much like other companies in their industry. Afterwards, however, they reported markedly more communication, training and participation and superior performance in operations and profits (John Logue and Jacquelyn Yates, *The Real World of Employee Ownership* (Ithaca, NY: Cornell University Press, 2001), p. 168).

The OEOC also maintains an active research and writing program. Its publications include major academic studies of the employee-owned sector in Ohio, as well as “how to do it” manuals for employee buyouts and ownership succession, and financial training manuals for employee owners. A publication list is available at the website.

Philosophy

The OEOC’s philosophy is that cooperative collaboration is the best way to achieve goals and benefits for all members of an organization. This is a philosophy neither of the left nor the right, but rather one that places the emphasis on taking practical actions to achieve shared goals.

“Employee ownership is one of those rare catalyzing ideas that really pulls the community together,” OEOC Director John Logue explains, “because employee ownership is compatible with some of our most deeply felt American political views. As Americans, we tend to view ourselves, much as Thomas Jefferson viewed the country two centuries ago, as a nation of economically independent citizens, even though most of us are no longer farmers, craftsmen, and proprietors. Employee ownership is simply the modern version of Jefferson’s vision, adapted to the economics of modern business corporations.”

The OEOC’s mission states two overriding goals: (1) to broaden ownership among more Ohio employees, creating more employee wealth, and (2) to deepen that ownership through employee participation in decision making in the companies that they own.

Achievements

As was mentioned in the introduction, since its founding, the OEOC has assisted 463 Ohio businesses and plants, employing 84,259 Ohio residents, in exploring whether employee ownership makes sense for them. Of these, 69 firms, employing 13,654, have implemented partial or complete employee ownership. Others have found buyers or implemented other strategies to keep business and jobs in Ohio. As Logue is quick to point out, Ohio’s experience with employee stock ownership plans (ESOPs) demonstrates that direct employee ownership promotes reinvestment, job creation, and asset-building. “Data from Internal Revenue Form 5500 Pension Reports indicate that over $300 million dollars in employee assets have been created,” according to Logue, “and since the program started, no employee-owned company in Ohio has pulled up stakes and moved to a lower-wage state or country.”

The state of Ohio has played a key role in supporting and encouraging the center. “The State of Ohio is one of only a handful of states that had the vision and the commitment to help fund the work of a statewide employee ownership assistance program,” explained Karen Conrad,. “Since 1987 the Ohio Employee Ownership Center at Kent State has provided high quality assistance to promote the establishment and successful operation of employee-owned companies in Ohio.”

Employee ownership policy delivery has developed in Ohio as a public-private partnership between the Ohio Department of Development – the state executive branch department devoted to economic development, a public university, private foundations and the most committed employee owned companies. This partnership has proven to be very cost effective for the state. In 2002, the cost per job retained, created, or stabilized through

Ohio's Employee Ownership Assistance Program was $423 per job in Department of Development funds. In other states, tax breaks and other incentives to business for job creation have amounted to $250,000 or more per job created.

In the most recent fiscal year (2003),

- The OEOC provided technical assistance to 26 companies and employee groups investigating employee ownership; these employed 2720.
- Five companies that the OEOC worked with became employee owned in FY03, creating 395 new employee owners.
- 28 projects were screened for the Ohio Preliminary Feasibility Study program for the Department of Job and Family Services, resulting in 7 grants approved and 7 studies completed. One company was purchased by an outside buyer and kept open; two are in the process of becoming employee owned. The program helped stabilize or retain 144 jobs.
- The OEOC did in-company training for 290 employees in 4 employee-owned companies.
- The 60 member companies of Ohio's Employee-Owned Network sent 414 employees to take part in 21 days of joint Network programming.
- The magazine, *Owners at Work,* increased circulation from 10,000 to almost 12,000.
- The 17th annual Ohio Employee Ownership Conference, held April 10, 2003, attracted 325 participants. It is the largest state employee ownership meeting in the country.
- Forty-seven owners from 41 companies employing 1792 people attended Succession Planning Program seminars in Greater Cleveland. One in five expressed an interest in exploring employee ownership as an ownership succession strategy.

A preliminary study to quantify the wealth creation effect of the work of the OEOC estimated that the companies helped by the OEOC to become employee owned created more than $300 million in employee wealth between 1987 and 2001 and that this total grows annually by more than $20 million in new wealth for worker owners. (The total wealth figure does not include equity which retirees cashed out over the period.) A more detailed study to determine the accuracy of this phenomenon is underway.The OEOC continues to undertake new initiatives which may impact the future economic landscape. Three began in FY03:

- A purchasing co-op was established for the 60 member companies of Ohio's Employee-Owned Network. It pools buying power so that companies can buy business services at rates far below standard market rates.
- In September 2002, ComDoc CEO (and OEOC Executive Committee member) Riley Lochridge initiated a series of Network CEO and CFO dinners to build a stronger community among the top managers of Ohio employee-owned companies and to help the Network expand its membership.
- In May 2003, with the Ohio AFL-CIO, the OEOC co-hosted a successful state-wide "Working Capital" conference on establishing a labor-sponsored investment fund that would pool pension fund dollars to reinvest in the local economy. The goal is to refocus pension fund investment on growing locally owned and operated businesses that create jobs and anchor capital in workers' and pensioners' communities.

While 90% of OEOC work is in Ohio, here are a pair of national and international highlights.

- The National Steel/Aluminum Retention Initiative (NSARI), which OEOC coordinates for the U.S. Department of Labor, worked with 16 buyout groups, firms, and plants with 2974 employees. (OEOC partners in this national effort are Steel Valley Authority in Pennsylvania, the ICA Group in New England, the Center for Labor and Community Research in Chicago, and the Business Retention and Expansion Program of the Washington Department of Commerce.) Two-hundred-sixty-five threatened jobs were retained in five of these companies.

- The Capital Ownership Group, staffed with Deborah Olson, held a very successful 3-day international conference in Washington in October 2002 with 125 participants from all over the world. As of 6/30/03, the COG website (http://cog.kent.edu), had received over 2 million hits from people in 152 countries. By the last quarter of FY03, it was averaging 120,000 hits per month. This reflects real international interest in employee ownership.

Economic Impact of the OEOC

Research indicates that a support organization can increase the number of employee-owned companies and their economic vitality. As far as we can estimate, the existence of the Ohio Employee Ownership Center has increased the number of employee-owned companies in Ohio by roughly 65% relative to the national average. While Ohio ranks 7th in population in the United States, and 25th in per capita income, it appears to rank 5th in number of employee-owned firms. It is tied with New York for the number of employee owned firms, even though its economy is but a fraction of New York's.

State return on investment. Direct job retention numbers have already been cited. Payroll taxes to the state of Ohio paid by companies assisted by the OEOC approximate $5,000,000 annually, and another $2,000,000 goes to municipalities – not a bad return on an annual investment of about $100,000 by the state in the program.

Wealth creation for employees. Most employee ownership in the United States takes the form of stock held in pension plans. Of the 69 companies assisted by the OEOC from 7/31/87 to 12/31/03, 44 companies, employing 4831, reported $123 million in pension values, or more than $25,000 per worker as of the end of their 2001 reporting year. Three other employee-owned companies had been sold to outside investors, returning $165 million to their 4750 employee-owners, or almost $35,000 per employee. Employee equity in two other plans involving 335 employees were sold privately to other owners and the value returned to the employees is not known. Three companies were troubled when sold, and returned some value to their 835 employee-owners, estimated at a minimum of $5 million (at least $6,000 per employee). Other companies aided by the OEOC are directly owned and closely held by their employees, so that their value is not reported in pension statistics. And some companies receiving OEOC aid are too new to be reported in the 2003 data or to have contributed much to the pension plan.

In addition to being a cost-effective economic development strategy for job retention, creation, and stabilization in Ohio, employee ownership yields long-term economic benefits for the state in four additional areas: (1) employee-owned firms reinvest in capital improvements in existing facilities at a higher rate than other firms; (2) employee-owned firms reinvest in their human capital at a higher level than is common in our region; (3) employee-owned firms have a higher economic multiplier effect in their communities through higher levels of home ownership, purchases of consumer durables, and higher retirement benefits; and (4) employee-owned firms create significant assets for Ohio families. The thousands of Ohio employees who have become owners in collaboration with the OEOC are building an estimated $20,000,000 annually in additional assets through their ESOP plans. That is locally anchored capital that helps solidify the economic base of Ohio communities.

Ohio's Employee-Owned Network also seems to play a role in company performance. Data collected in 1992-1993 show that Network firms reported greater improvements in operational performance after adopting an ESOP than did firms that were not members of the Network. Network members were also more likely to report higher profits relative to their industry after adopting the ESOP, and their stock gains over the three years prior to the survey were greater than ESOP companies that were not Network members. (See graph on page 5.)

The same survey suggests that the apparent impact of the Network arose from the fact that Network members adopted a more participatory management style after they became ESOPs, while the non-Network members had changed little. Before the ESOP was established, the Network members looked much like the non-Network members in terms of using training, communication and participation to manage their companies. After the ESOP, however, the Network member companies reported substantial changes in all three areas, while the non-Network firms reported only a little change. Of course, it is impossible to be certain that the effect was generated by participation in the Network. Since the Network emphasizes and enables changes in management style, the companies that join it may be predisposed in that direction and perhaps they would have adopted more a more participatory style in the absence of the Network, and perhaps they would have benefited even without the Network.

Another kind of economic impact is the tendency for employee-owned companies to increase their share of ownership in their companies over time. It is not known if similar patterns occur among all Ohio's employee-owned companies, but it is the case among companies in Ohio's Employee Owned Network. One reason for this may be that in closely-held companies (which are the most numerous employee-owned companies), owners often want to see how employee ownership succeeds before they sell a controlling interest to employees. To receive tax benefits under U.S. law, the owner must transfer at least 30% of the company to the employees (Internal Revenue Service Section 1042). Many owners prefer to sell the minimum initially, so that they will retain control of the company should the transfer to the employees create significant problems. However, if all goes well, they may then willingly allow the employees to purchase majority ownership. From 2001 to 2002, eight companies of the 52 in Ohio's Employee-Owned Network increased their ESOP ownership, with the mean ownership percentage rising from 55% to 71%. This affected 1842 employee owners. (Twenty-two Network companies were already 100% employee owned in 2001, so an increase was not possible.) In 1998 -- the first year for which data is available, 16 of 52 Network member companies increased their employee ownership percentage from an average of 45% to an average of 69%. These changes affected 3089 employee owners. (Thirteen Network members were already 100% employee owned in 1998.)

The value of closely held company stock is not publicly available. We have accurate information, however, from our 1985-86 and 1992-93 surveys. Average median change in stock value over the previous two years was + 7.5% annually in 1985-86 and, over the previous three years, was + 7% annually in 1992-93 survey.

History of the OEOC

Ohio's interest in employee ownership was sparked by several local efforts to save jobs during the late 1970s and 1980s. The first such effort, the Youngstown Ecumenical Coalition, brought together steelworkers, religious leaders and other community leaders in an attempt to save the Youngstown Sheet and Tube and US Steel works by using an ESOP to purchase the mills. Although that effort ultimately failed, the efforts of the Ecumenical Council showed that there was interest in using employee ownership as a financial tool to avoid plant shutdowns. OEOC director and political science professor John Logue of Kent State University was part of that first effort.

The spirit of cooperation set by Ecumenical Coalition convener Bishop James Malone[2], of the Catholic Diocese of Youngstown, demonstrated a collaborative style of leadership among labor, community and church that Logue saw as an inspiring and effective

[2] Bishop Malone chaired the National Conference of Catholic Bishops when it issued its pastoral letter "Economic Justice for All" (1987) which strongly endorsed employee ownership. Bishop Malone was a founding member of the OEOC's board.

approach for exploring the potential of employee ownership. He envisioned a center that could serve as a catalyst in building collaborative relationships among diverse groups, bringing together rank-and-file employees, business owners, local economic development officials, unions, trade associations, and citizen groups in order to build coalitions as sources of power, channels of influence, and new opportunities for action.

"One of the things that always impresses me is how many natural, unsung leaders there are in any employee group," Logue says. "Even if these leaders have never held any institutional leadership position, they're willing to step up to the plate on behalf of their fellow employees."

After his experience with the Ecumenical Coalition, Logue set up the Employee Ownership Project in 1984, and subsequently with the financial help of the Cleveland Foundation and the Gund Foundation, two local private foundations, began educating others in Ohio about employee ownership as a job retention and job creation strategy. His essay, "Toward a Model State Program to Encourage Employee Ownership," won a prize from the Upjohn Institute for Employment Research in 1985. It created the "roadmap" for the establishment of the Ohio Employee Ownership Center.

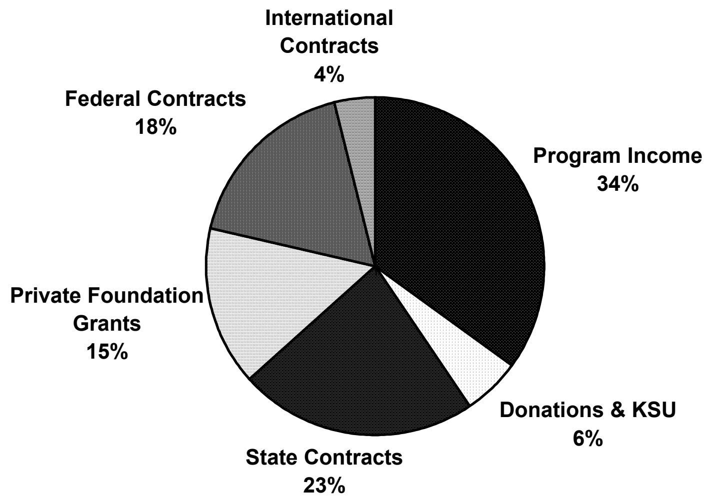
"There are no panaceas for America's employment problems," wrote Logue in his 1985 essay, "neither high tech nor a growing service sector can provide an adequate number of well-paid jobs. The most promising route is to reduce the current rate of job loss. Employee-owned firms, whether wholly or partially owned by their employees, place a higher priority on job security than conventional firms do. Employee owners, by definition, are interested in job retention and equity formation in the plants in which they work. Their time perspective can be measured in years, perhaps decades, rather than quarters. They reinvest in their communities."

For the first three years of its life, the Ohio Employee Ownership Center was "mentored" with support from the Michigan Employee Ownership Center. Michigan Center Executive Director Deborah Groban Olson provided the new Ohio center with advice, technical assistance, and initial materials for dissemination.

An important ingredient in the success of the OEOC is the support of Kent State University, which has provided a home for the center since its founding. Says KSU President Carol Cartwright, "The Ohio Employee Ownership Center is an important outreach initiative for Kent State. We are very proud to serve as home to a center that consistently gets results that change people's lives in direct and important ways."

The OEOC has survived when other state employee ownership centers have been defunded or merged into other departments, with shifts of mission and personnel. Of the eight state employee ownership centers that were created in the 1980s (Hawaii, Massachusetts, Michigan, New York, Ohio, Oregon, Pennsylvania and Washington), only the Ohio Center has endured as a standalone agency. The development of multiple funding sources and the public-private partnership probably accounts for its survival. The Center's funding sources are shown in the graph below.

Funding Sources for the Ohio Employee Ownership Center



Source: Financial Report FY 2003 (July 1, 2002 - June 30, 2003)

National Recognition

In October 2003, John Logue and the Ohio Employee Ownership Center were recognized by the Ford Foundation, which awarded to Logue the Leadership in a Changing World Prize. Leadership in a Changing World is a program of the Ford Foundation in partnership with the Advocacy Institute in Washington, D.C. and the Robert F. Wagner Graduate School of Public Service at New York University. The program seeks to recognize, strengthen and support leaders and their organizations, and to highlight the importance of community leadership in improving people's lives. Leadership for a Changing World hopes to facilitate a new appreciation that leadership comes in many forms and from many different communities.

The seventeen 2003 awardees (of more than 1300 nominated) join 40 previous recipients. LCW provides financial and other support for their programs and leadership, and engages them as partners in ongoing research about leadership. The $100,000 prize will help to advance the work of the OEOC, and an additional $15,000 will accompany the prize to explore new learning opportunities for further organizational development.

"These awards recognize the achievement of remarkable people, such as John Logue, working to bring positive social change to their communities and beyond," said Susan V. Berresford, President of the Ford Foundation. "John Logue is an exceptional leader who offers positive solutions," said Kathleen D. Sheekey, President and CEO of the Advocacy Institute. "Like the 17 other 2003 LCW award winners, he doesn't just point out what's wrong, he points to the kind of world in which we'd all like to live." Logue is the first LCW winner from Ohio since the award's inception roughly three and one-half years ago As a national awardee, he will participate in several leadership symposiums during 2003-2005 and also be part of a national media effort to communicate stories of the OEOC's efforts and the importance of employee ownership as an economic development and redevelopment strategy. Since the award was announced early last October, Logue has appeared as a guest on some 15 radio talk shows from New York to San Francisco and has appeared on LCW's "Leadership Talks" online interview. The LCW interview can be found at http://leadershipforchange.org/talks/logue.

To sum up, the record of the Ohio Employee Ownership Center demonstrates that even a small support center, working continuously over the years, can usefully assist in the development of sound employee-owned companies of all sizes and types. By assisting in buyouts and organizational development after the buyout, employee ownership centers strengthen national economies by helping working people to help themselves.

Logue writes, "$20 million a year is a lot of wealth creation for ordinary people We obviously can't -- and shouldn't -- take credit for it. It's a result of employee owners' hard work every day -- and of the dramatic power of ownership of productive assets to produce additional wealth. What we can take credit for is helping them to help themselves."

Employee-owned businesses are anchored in their localities and states, and research from the state of Washington indicates that they are far more likely to do whatever is necessary to stay in business where they are, rather than move to another location. Staying in the locality, as Thad Williamson, David Imbroscio and Gar Alperovitz note (*Making a Place for Community: Local Democracy in a Global Era* [London: Routledge, 2002]), builds strong connections among people that strengthen democratic attitudes and practices, so the payoff is more than just economic.

Press Conference Presentation– The OEOC and buyouts

SLIDE 1 – The OEOC

For most of the 20th century, the state of Ohio, with a population of about 11 million and a workforce of about 5.5 million, has been an established industrial and manufacturing region producing diverse products and services, including steel and energy. It experienced substantial job losses in the 1980s, recovered somewhat in the 1990s, and has had additional loss of jobs in the steel and manufacturing sectors in recent years. In the past four years, it is estimated that Ohio has lost at least 240,000 jobs, or about 4% of total employment (Jon Honeck, Policy Matters Ohio, *International Trade and Job Loss in Ohio,* February 2004). Many of these have been good-paying union jobs. About 10% of them were in just the two areas -- automotive and electrical manufacturing.

In the past, many workers who lost their jobs were able to find new employment, but typically at lower wages, with fewer benefits. Over the years, this reality has greatly diminished Ohio's economy. The Ohio Employee Ownership center was founded in 1987 to help with Ohio's economic development problems.

It was the sudden and unexpected closing of plants in the major steel center of Youngstown Ohio that catalyzed the birth of the center. Ever since it has maintained an office at Kent State University (NEXT SLIDE),

SLIDE 2 – McGilvrey Hall

and today it has a staff of nine.

SLIDE 3 -- OEOC Staff

Employee ownership has proved to be one means by which some jobs can be saved and some plant closings can be delayed or avoided. The director, Professor John Logue of the Political Science Department, has long argued that it is more effective to keep jobs that already exist than to lose them and try to develop completely new economic activities.

SLIDE 4 – Support Activities of the OEOC

The support activities of the Ohio Employee Ownership Center include

First, Assisting employees and employers interested in buyouts, including

- casual telephone calls,
- referrals to legal and financial consultants,
- And offering succession planning programs to inform retiring owners of their options so businesses will not be lost. 444 owners of 353 businesses employing 28,500 people, have participated in this program since 1996.

Second, Administering prefeasibility study funds. These are state funds used to assist in investigating employee ownership. In 2002 and 2003, the OEOC approved 17 studies, which resulted in retaining 264 jobs.

Third, Administering Ohio's Employee-Owned Network, an association of employee-owned companies interested in improving their operations through more effective management. The Network began as 12 companies in 1989, and it now has 61 members. For the Network, the OEOC organizes an annual curriculum of employee training for all levels, from the CEOs to shop floor laborers. In fiscal year 2003, 414 employees participated in the training. New for the Network this year is a purchasing cooperative which offers low prices on business services and purchases like office supplies, delivery service, and insurance.

Fourth, The OEOC provides training to improve participatory management in employee-owned companies generally.

> Topics include education on conducting successful buyouts, basic education on business and financial statements, effective management of meetings for shopfloor employees, education on what employee ownership is and how an Employee Stock Ownership Plan is structured under U.S. law, and the latest updates on this law. The training can be done at company's own site, or several companies can send employees to a central meeting place arranged by the OEOC.

Since 1987, the OEOC has worked with 463 employee and company groups employing more than 84,000[1] in exploring whether employee ownership makes sense for them. It has helped employees to buy part or all of 69 of these companies, retaining or stabilizing 13,654 jobs, and it helped employees create more than $300 million in equity they own – stabilizing community employment, tax bases, and property values. These companies continue to create in excess of $20 million in new employee equity annually, in addition to cashing out retiring employees.

In addition to its direct work with companies, since 1989, the OEOC has published *Owners at Work, a* semiannual newsletter with a current circulation of almost 12,000.
It also organizes an annual conference on employee ownership, which was attended by 325 employee owners last spring.

The OEOC also does research on the management and performance of employee-owned companies, some of which has been published by prestigious U.S. presses, like Cornell University Press and Praeger Press.

The OEOC manages the Capital Ownership Group, a worldwide discussion group of practitioners, policy makers and academics.

And finally, the OEOC has recently assumed management of the Commonwealth Revolving Loan Fund, a socially-conscious investment fund to provide financing for buyouts and expansion of existing employee owned companies. The Commonwealth Fund currently has assets of nearly half a million dollars, and plans to collaborate with other funds will allow the OEOC to loan up to $500,000 to single borrowers.

SLIDE 5 – Types of Buyouts

There are essentially two buyout scenarios. In the first, a retiring owner or partnership wants to sell the business. In the second, there are plans to close a company or sell it to a competitor who may close it or substantially cut jobs.

Buyout from a retiring owner is usually not pressured, and can take up to 12 years between first contact with the OEOC and sale of stock to employees (that's the record). In a 1992-93 study of all Ohio ESOPs, this was a major or minor reason for 70% of all buyouts.

The advantageous thing about employees buying companies from retiring owners is that they are generally buying profitable businesses, and heroic efforts and sacrifices are not necessary. In addition, the seller is likely to be friendly to the employees and offer benefits or concessions to help the sale succeed.

Buyout to avert shutdown or sale is usually under pressure and is completed within a year. Companies bought in these conditions are more likely to be troubled by poor performance. Buyout to avert shutdown was a major or minor reason in 22% of buyouts in the last Ohio study.

In a shutdown situation, reluctance or resistance from the seller is more common. This can sometimes be overcome with the advice and participation of elected officials.
In the experience of OEOC staff, about half of buyouts from a friendly seller succeed, but only 5-10% from an unfriendly seller.

SLIDE 6 - Steps in a buyout

The steps in both kinds of buyouts are basically the same, but things happen much faster when a shutdown is imminent or layoffs are expected.[1]

In either case, someone must propose the buyout – either the owners or the employees.

Education follows – first for the leaders of the buyout, and then for all interested employees. Attendance at these meetings is a good indicator of interest in the buyout. The meetings explain how a buyout can be done under state and national law, identify possible sources of financing, and discuss possible obstacles to a successful deal. OEOC staffers often attend these meetings to provide technical advice, but the leaders of the buyout should conduct the meeting.

If the buyout seems feasible on the face of it and is well supported, the employees may form a buyout association to search for funds, contract with legal and financial consultants who will prepare the feasibility study, and develop a management team.

A quick prefeasibility study by legal and financial consultants can clarify whether the owner is willing to sell, whether the company's past financial performance indicates that it would be a sound investment, whether there are banks and state agencies willing to lend funds or provide loan guarantees, who will be the new management team, and the prospects for the company's future success.

If the initial investigation is favorable, the buyout association may contract for a more extensive (and expensive) study. This may be done by the company's managers or by outside consultants, and typically costs between $15,000 and $50,000.

Drawing on information from the study, the buyout association can then develop a business plan explaining how it could operate the business at a profit.

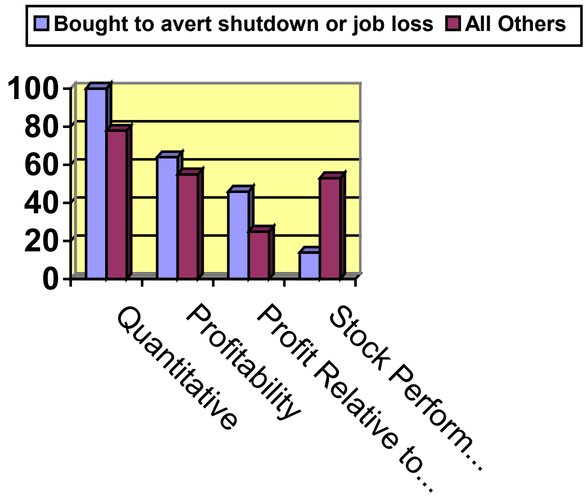
Then come negotiations for the purchase. The feasibility study should provide a basis for establishing the price of the company and clarify how much debt the company can support, since repayment of any loan will have to come out of the company's profits. The actual negotiations can be lengthy and expensive.

Once a price is agreed, financing is arranged through potential lenders identified in the feasibility study, or from other sources, and the deal is closed as a contract between the seller and the buyers.

[1] For more information on the buyout process, see John Logue, et al, *Participatory Employee Ownership: How It Works* (Pittsburgh: Worker Ownership Institute, 1998), pp. 27-62.

SLIDE 7 – Companies Bought to Avert Shutdown

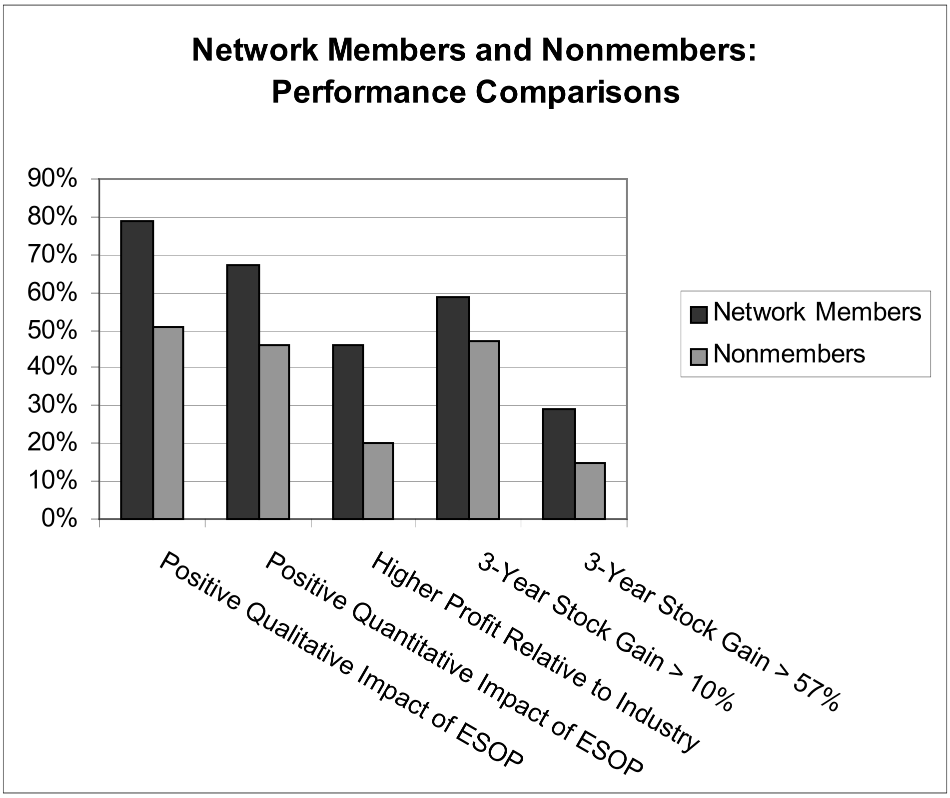
Comparison: Companies Bought to Avert Shutdown/Job Loss vs. All Others



This chart indicates that compared to other employee-owned companies in the study, companies bought to avert shutdown or job loss enjoyed somewhat greater positive changes after establishing employee ownership. They reported larger gains in performance on a set of easily measurable quantitative indicators like absenteeism, costs of production, customer service, productivity, profitability and turnover. And they reported larger gains in their profitability relative to other companies in their industry. However, they were far less likely to enjoy substantial increases in their stock value over the three years prior to the survey.

While not all buyouts to avert shutdown involve troubled companies, many do. Buyouts from willing sellers through succession planning typically have a far brighter economic outlook for the employees.

SLIDE 8 – Network Companies Compared to Others



The best outlook, however, is for the firms that embrace the potential of employee ownership. Many of them work with the center to improve their performance. The most active of these firms are members of Ohio's Employee-Owned Network. Compared to the other firms in our last major survey, they report superior performance on all performance indicators.