ARTICLE

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Employee ownership in the United States is helping to overcome traditional animosity between management and labor by encouraging more cooperative and less confrontational forms of corporate organization. The first part of this article describes the concept of employee ownership and the new participatory management styles that are emerging from it. The second part gives an overview of the growth of employee ownership in Northeast Ohio, a region with a diverse and innovative employee-ownership movement. The third part offers a more detailed look at one particular firm, Republic Engineered Steels, Inc., which is both 100% employee-owned and in the process of adopting a more democratic and participatory management style. The fourth part considers some of the social implications of employee ownership in the U.S. and points out some similarities and differences between American employee-owned firms and Japanese companies.

The Concept of Employee Ownership

Daniel Bell of the Northeast Ohio Employee Ownership Center (NOEOC) identifies three types of employee-owned firms: (1) conventional corporations, (2) cooperatives, and (3) employee stock ownership plans (ESOPs).[1] In conventional employee-owned corporations stock is held by most or all of the employees and only employees own stock. While there are very few such firms, Bell lists Republic Hose, Manchester Manufacturers, and St. Mary's Foundry as examples in Ohio. Such corporations are relatively easy and inexpensive to set up, but they lack the tax advantages of ESOPs. They

1) Daniel Bell, *Bringing Your Employees into the Business: An Employee Ownership Handbook for Small Businesses* (Kent: Kent Popular Press, 1988), pp. 14–18.

are also difficult to perpetuate. Since the value of the stock typically increases over time, new employees may be unwilling or unable to buy it when they join the company. Often a two-tiered split in the workforce develops between older employees who own stock and newer employees who do not. It is also common for employees who own stock to eventually sell it at a profit to outside investors, thus turning employee-owned firms back into non-employee-owned firms.

Cooperatives are the second form of employee ownership listed by Bell, and they are the most democratic. Members of cooperatives have both equal ownership and equal voting rights in the firm. Return of profits is based not upon the amount of capital investment, but upon labor. Profits are shared through a patronage system, which rewards workers on the basis of the number hours worked. Actual wages may vary, however, depending upon the skill level and seniority of the employee. At present only seven states have specific laws governing cooperatives. Nonetheless thousands of cooperatives have been started throughout the United States, many being incorporated as "conventional corporations" for legal purposes. Partly because of the high degree of democratic involvement, cooperatives tend to be small, however. Most have fewer than ten employees, although there are a few large cooperatives. Bell estimates that there are presently only 6–12 cooperatives operating in Ohio.[2)]

The third type of employee ownership noted by Bell are companies which have been organized through Employee Stock Ownership Plans. The concept of ESOPs was first outlined in Louis Kelso and Mortimer's Adler's book, *The Capitalist Manifesto*, published in 1958.[3)] The idea was to extend capital ownership in America by making "every worker a capitalist." The concept's chief political champion was Senator Russell Long of Louisiana. In 1974 the Employee Retirement Income Security Act established a legal framework for ESOPs. Subsequent legislation has set forth additional

2) Personal interview with Daniel Bell at Kent State University, July 21, 1993.

3) Louis Kelso and Mortimer J. Adler, *The Capitalist Manifesto* (New York: Random House, 1958).

regulations and expanded the tax advantages of ESOPs. In 1989 ESOP law was significantly revised to extend the rights of employees and to close loopholes, particularly to prevent large corporations from abusing the tax benefits of ESOPs.[4]

While employee-owned companies still represent a relatively small percentage of U.S. firms, the number of ESOPs has been growing rapidly over the past two decades. In 1989 there were approximately 9,800 companies with ESOPs in the United States, embracing 10 million employees. Employees own the majority of the stock in only about 1,500 of these companies, however.[5] By law ESOPs must include a majority of the employees of a company, but the actual extent of employee ownership can vary from less than 1% to a full 100%. It is not uncommon, however, for partial employee ownership to serve as a stepping stone to full employee ownership. In proportion to its population Ohio has more ESOPs than any other state: approximately 275–300 companies with roughly 275,000 employees. About a third of these companies are significantly or wholly employee-owned.[6]

Essentially ESOPs are retirement plans in which assets are reinvested in the companies the employees work for. Traditional retirement plans typically require the assets to be invested outside the company in a diversity of investments, both to protect employees and to prevent companies from using tax-deductible retirement contributions for their own purposes. With ESOPs, however, money contributed by the company to the retirement program is used to buy stock in itself on behalf of the employees. The

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4) See Bell, pp. 102–106 and *When Workers Decide: Workplace Democracy Takes Root in North America*, ed. Len Krimerman and Frank Lindenfeld (Philadelphia: New Society Publishers, 1992), pp. 288–289.

5) Frederick Ungeheuer, "They Own the Place," *Time* (February 13, 1989), pp. 34–35. The National Center for Employee Ownership estimates that there are currently 10,000 American firms with ESOPs, covering more than 11 million employees. The growth rate has averaged 10% annually.

6) John Logue, Daniel Bell, and Catherine J. Ivancic, "Education for Enterprise Democracy" (Kent: NOEOC, 1991), and the July 21, 1993 interview with Daniel Bell.

actual amount contributed by the company may vary from a fraction of 1% to 25% of an employee's wages, and can change from year to year. Stock is then allocated to each employee through individual accounts—usually in proportion to wages but sometimes on an equal basis—with employees receiving vested rights to the stock either immediately or within a set period (the maximum is seven years). When the employees leave the company or retire they are able to sell the stock back to the ESOP at its fair market price (an annual appraisal is required by law). Catherine Ivancic and John Logue, also of the NOEOC, cite a 1985 study which showed that an employee making the average annual income of $18,000 in 1983 would have an ESOP share worth $31,000 in ten years and $120,000 in twenty years. The net worth, incidently, of a family cashing in this ESOP after twenty years would be exceeded only by the top fifth of American families.[7]

Ivancic and Logue note that ESOPs are extremely flexible and can be used by companies for a variety of purposes, such as to raise new capital for expansion, gain access to cheaper loans, and barter shares in the company for wage concessions.[8] Because money can also be borrowed through ESOPs to purchase stock, they have frequently been used to convert conventionally owned companies into employee-owned companies. Buyouts can be arranged in a variety of ways, but the basic method is for all the employees of a firm, both management and labor, to create an Employee Stock Ownership Trust (ESOT). Money may be borrowed from outside lenders for deposit in the ESOT and employees themselves may also collectively decide to invest a given amount by rolling over assets from another retirement plan or taking a reduction in wage benefits. The money is then used to buy the company from its original owners. As the company contributes to the ESOP retirement fund, the loans are paid off and ownership is effectively

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7) Jonathan Feldman and Corey Rosen, "Employee Benefits in Employee Stock Ownership Plans: How Does the Average Worker Fare?" (Arlington: National Center for Employee Ownership, 1985), cited in Catherine Ivancic and John Logue, "Employee Ownership and the States: Legislation, Implementation and Models" (Kent: Kent Popular Press, 1986), p. 6.

8) *Ibid.*, p. 8.

transferred to the new employee-owners.

Media attention has focused on the use of ESOPs to avert plant shutdowns in distressed businesses. However, the NOEOC estimates that only 2% of all ESOPS in the U.S. were set up to avoid plant closings; the figure runs slightly higher, from 5–10%, in the "rust belt" states.[9] A 1986 study showed that only 18 out of 47 buyouts to avert plant closings were successful in Ohio. Nonetheless, more than half of the 40,000 jobs that were at stake in these 47 buyouts were saved.[10] The most common reasons for failure were a lack of support from the parent corporation, a lack of timely information for employees, and a lack of adequate financing. Occasionally parent corporations sought to dump "unprofitable" subsidiaries on their employees after the subsidiaries had been disinvested of their capital—leading one union leader to charge that employee ownership is nothing more than "lemon socialism" because corporations only sell the "lemon" companies to employees.[11] On the other hand, the rate of success for employee-owned companies substantially increases when companies are sold to employees *before* disinvestment occurs and when the new employee-owners have access to adequate information and financing. In fact, the vast majority of employee buyouts are of successful businesses, particularly closely held businesses that are sold to employees when the owners retire. Rather than liquidate the company, or sell it to a competitor or other outside buyer (who might also liquidate the company), it is often more profitable for owners to sell the company directly to the employees.

There are a number of tax advantages which make ESOPs attractive to companies, lenders, and employees alike. The amount contributed by the company to the ESOP trust can be deducted against corporate taxable income, meaning, in effect, that earnings contributed to an ESOP can be re-

9) *Ibid.*, p. 26.

10) John Logue, James B. Quilligan, and Barbara J. Weissmann, *Buyout! Employee Ownership as an Alternative to Plant Shutdowns: The Ohio Experience* (Kent: Kent Popular Press, 1986), p. 5.

11) William Winpisinger of the International Association of Machinists, cited in Jim Bado and John Logue, *Organized Labor as Organized Owners: Employee Ownership and the American Labor Movement* (Kent: NOEOC, 1992), pp. 5–6.

tained tax-free. Owners of closely held businesses can defer taxation indefinitely on capital gains if more than 30% of their business is sold to employees through an ESOP. Banks and other lenders can exclude from their taxable income half of the interest they collect from firms, provided that the firms are more than 50% employee-owned, the employee-stockholders have full voting rights, and the term of the loan does not exceed fifteen years. Employees are not required to pay taxes on stock while it remains in the ESOP. Although the stock typically builds equity during their years of employment, taxes are only paid when employees cash in the stock after retiring—when they are usually in a lower tax bracket. Any dividends paid directly to employees are also tax-deductible for the company.

ESOPs are more flexible than cooperatives because they can be adapted to a variety of corporate structures. Companies with ESOPs are not legally compelled to adopt more democratic management policies, and the National Center for Employee Ownership estimates that only a third of the firms that are majority owned are also democratically organized.[12] Ivancic and Logue estimate that while about 15% of the labor force is currently involved in some form of broadly defined employee ownership or workplace democracy program, only 1%, or about one million people, belong to the "democratic sector," i.e., firms that are both fully employee-owned and democratically managed. They hasten to add, however, that there were virtually no forms of employee ownership or workplace democracy less than two decades ago.[13]

Employee ownership and democratic employee participation are distinct concepts, and it is possible to have one without the other. Critics contend that ESOPs which exclude increased worker participation are often simply a convenient way for companies to obtain tax advantages, raise capital, or fend off corporate raiders, while denying employees the opportunity to participate in important company decisions. Ivancic and Logue cite the example of South Bend Lathe, in Indiana, which despite being 100% employee-

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12) Krimerman and Lindenfeld, p. 6.

13) Catherine Ivancic and John Logue, "Democratizing the American Economy: Illusions and Realities of Employee Participation and Ownership" (Kent: NOEOC, 1991), p. 23.

owned, was completely controlled by management. The workers eventually went on strike—against the company they themselves owned—and management responded by moving a portion of its operations overseas![14]

On the other hand, employee participation programs which do not include employee ownership or other material incentives, such as profit (or "gain") sharing, are rarely successful in the long run. In 1985 about 90% of all Fortune 500 companies had Quality of Work Life (QWL) programs of one type or another. But 83% of these programs were discontinued within eighteen months.[15] The faddish programs were often advocated by management with little genuine employee input, and employees tended to see them simply as "dog and pony shows," designed to get more work out of them by making them feel more "involved."

In a 1987 report with the pessimistic title, "Employee Stock Ownership Plans: Little Evidence of Effects on Corporate Performance," the U.S. General Accounting Office concluded that there is indeed little connection between employee ownership and profitability *unless* employee ownership is coupled with employee participation. Writers from the NOEOC comment, "A consensus is gradually developing that the key to creating successful employee-owned businesses lies in combining a financially meaningful employee share in the firm with the opportunity for substantial participation in decision making."[16] The decision to set up an ESOP is usually made on the basis of business considerations, not out of idealistic motives to have more "democracy." The lack of specific legal guidelines for workplace democracy has given rise to a great deal of experimentation in American firms. New management styles are emerging which encourage the participation of all levels of employees in the decision-making process, creating the potential for less confrontation and greater cooperation between labor and management. The results, as shall be seen in the next section, have often been greater productivity for companies and more secure jobs for employees.

14) *Ibid.*, p. 15.
15) *Ibid.*, pp. 7–8.
16) Logue, Bell, and Ivancic, p. 3.

The Growth of Employee Ownership in Northeast Ohio

Northeast Ohio is part of America's industrial heartland and historically has been the site of intensely antagonistic labor relations. One of the most tragic incidents occurred during the "Little Steel" Strike of 1937, when two workers were killed, seven injured, and 136 arrested in a clash between strikers and police near Republic Steel Corporation's Massillon plant. Tom Girdler, then president of Republic, achieved a measure of notoriety for his statement that he would sooner "pick apples than sign a union contract." The National Labor Relations Board eventually resolved the dispute by ordering Republic to recognize the CIO as bargaining agent, and the first contract was signed in 1943. Relations between steel companies and unions continued to be uneasy, however. A nationwide strike of steel-workers in 1959 involved 500,000 strikers, including 61,000 from Ohio, and lasted 110 days.[17)]

Industry peaked in Ohio in the decades immediately following the Second World War. Since the 1960s, however, there have been a number of challenges which have threatened not only companies, but also workers' jobs: industry has faced increased competition from abroad, many of Ohio's industrial facilities are out-of-date and in need of modernization, and investment in new plants and equipment has declined. While Ohio ranked first or second in the nation in terms of investment in the early post-war period, by 1976 it ranked only sixth.[18)] Inflation and high interest rates in the 1970s are partly to blame, but companies have also found it easier to "expand" through mergers and acquisitions, forming ever larger conglomerates and multinationals, than to modernize plants or build new ones.

Those companies that have invested in technological improvements have increased their competitiveness, but often at the expense of workers' jobs. Corporate "restructuring" has led some companies to seek improved efficiency by reducing the number of employees, often permanently—giving the

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17) An overview of union activity in Ohio can be found in Raymond Boryczka and Lorin Lee Cary, *No Strength Without Union: An Illustrated History of Ohio Workers 1803–1980* (Columbus: Ohio Historical Society, 1982).

18) *Ibid.*, p. 231.

slogan "leaner and meaner" entirely different meanings for management and labor. The net effect of increased mechanization, automation, and the gospel of efficiency, has been a significant decline in the number of manufacturing jobs: in Ohio the percentage of people employed in manufacturing fell from more than 50% in 1945 to 29% in 1980.[19] Meanwhile, in pursuit of lower wages and taxes, and fewer environmental, health, and safety regulations, some companies have shifted production to southern states (the "sun belt") or overseas. The entire mid-West, including Ohio, is often referred to these days as the "rust bowl" (after the "dust bowl" of the 1930s) because of its rapid industrial decline.

Deindustrialization has a rippling effect that can devastate entire communities. New jobs in the high-tech and the service industries have provided some relief. But the number of high-tech jobs are few and often require skills that many workers simply do not have. Jobs in the service sector are more plentiful, but wages are considerably lower and benefits are fewer or non-existent. Many of the newly created jobs are part-time or temporary, with little or no long-term security. Union membership has also declined significantly, partly because of the decline of manufacturing jobs and partly because of the difficulties in organizing the service sector, which accounted for 67% of the labor force in 1980.[20] Union membership overall had declined to 17% of the labor force by 1990—a loss of 50% since 1953.[21] In the steel industry union membership has declined 70% nationwide since 1980, from 500,000 to 148,000.[22]

In the past decade it has become increasingly clear that traditional business structures are failing to address the problems of industrial, economic, and social decline; it is within this context that employee ownership is being experimented with as an alternative. Management looks to employee ownership and expanded employee participation in the decision-making process as a means of improving productivity and competitiveness. Employees look at

19) *Ibid.*, p. 227.

20) *Ibid.*, pp. 266 and 291.

21) Bado and Logue, p. 1.

22) NOEOC's Republic training manual, no page number.

it as a way to save jobs and hopefully also to increase wages and benefits. Local and state governments are beginning to show an interest in the concept as a means to retain local industries and jobs, and thus insure important tax revenues. Employees who own their own companies are more likely to be concerned with the long-term viability of the enterprise than with short-term profits, and less likely to move operations elsewhere since this would endanger their own jobs. Moreover, since both capital and profits remain in local hands rather than being siphoned off by absentee owners, a reverse multiplier effect is created that *benefits* the entire community.

Many of the early employee buyouts were encouraged by management as a potential way to overcome traditional management-labor hostility. Until relatively recently labor unions have been skeptical of employee ownership, seeing it as simply another tactic for undermining union influence. Jim Bado and John Logue note that while direct worker ownership of the means of production had been a priority of the early labor movement, goals began to shift with the advance of industrialization.[23] Organized labor began to focus its attention more on collective bargaining than on the potential of cooperatives or other types of worker-owned enterprises. Unions came to see their role primarily as protecting and expanding workers' benefits, which unavoidably resulted in a confrontational stance toward management. Management, for its part, was more interested in maximizing profits for stockholders than in providing for employees.

Attitudes began to change, however, as union leaders saw jobs rapidly disappearing because of plant closings and management saw a need to drastically improve competitiveness. The United Steelworkers of America were one of the first major unions to shift from opposition to support for the concept of employee ownership. By 1986 the AFL-CIO had produced a set of guidelines for union negotiations on ESOPs. Unions find their roles changing, rather than being eliminated, in employee-owned companies. In the same way that sound management and supervision are still needed in employee-owned companies, there is equally a need for unions to continue to

23) See Bado and Logue, pp. 2–6.

protect the rights and benefits of workers as employees. In employee-owned companies, however, union leaders typically have more access to corporate information, making them more sensitive to what can reasonably be expected in terms of wages and benefits for union members. Since union leaders often sit on the boards of employee-owned companies, they are also able to participate in the corporate decision-making process and, moreover, to insure that management acts in the best interest of employee-owners. Because of the significant advantages of employee ownership for union members, Bado and Logue suggest that it could be utilized as a proactive strategy rather than simply as a defensive strategy against possible shutdowns.[24]

The lending environment for worker-owned enterprises is also changing for the better. Cooperatives in particular have traditionally had a dificult time securing financing from mainstream lending institutions. A common misperception is that responsibility for loans will be delegated to ordinary workers who lack both knowledge and accountability, rather than to competent financial officers. Bankers view ESOPs more favorably, however, because the companies utilizing them usually have fairly conventional management structures, at least to outside appearances. A study of Ohio banks conducted in 1987 showed that ESOPs tended to be viewed more favorably by larger banks having previous experience with ESOPs than by smaller banks having no previous experience.[25] Funding from government loans and private sources has also been increasing recently.

Employee ownership has had an impressive track record so far. Preliminary findings from a survey of 154 employee-owned companies in Ohio show that 49% of the firms outperformed conventional corporations in job retention, 50% matched conventional firms, and only 1% did worse. Only two employee-owned firms had failed; two others had been converted back into conventionally owned enterprises. The study also confirmed that the greater the percentage of employee-ownership, the greater the overall performance of the company. In companies that were less than 10% employee-

24) *Ibid.*, pp. 18–20.

25) See Daniel Bell and Mark Keating, "The Lending Environment for ESOP Companies: The Ohio Bank Study" (Kent: NOEOC, 1987).

owned, only 38% of the managers believed that their respective ESOPs had a positive effect on profitability. In companies that were more than 50% employee-owned, however, that figure jumped to 61%. The report also showed that employee-owned companies had greater investment, better on-the-job performance, increased communication, less conflict between management and labor, and improved customer service.[26)]

Not everything has been rosy, of course. For companies which are not only employee-owned but also moving towards more democratic forms of employee participation, the corporate culture inevitably goes through considerable change. Many companies experience a honeymoon period just after employee ownership has been established, when expectations for change are highest. But corporate cultures cannot be transformed overnight and the transition from confrontational to more cooperative attitudes is usually gradual. Until group decision-making skills are mastered, it is possible that there will be *more* rather than *less* personal conflict among workers. Employees may not see the need for any form of supervision whatsoever; supervisors may not be able to successfully shift from being authoritarian taskmasters to democratic facilitators. If pragmatic considerations make it impossible to implement an employee's suggestion, for example, the employee may immediately conclude that " nothing has really changed " and give up trying to participate. It can be expected that some employees will never be able to successfully adapt to the new environment. Typically, however, attitudes improve as workers begin to see how their particular job fits into the " big picture " of the company. Over time, participating in company decisions can often lead to greater personal fulfillment and job satisfaction.[27)]

26) " Study Shows That ESOPs Are Good Business for Ohio " in *Owners at Work*, Vol. V, No. 1, Spring 1993 (Kent: NOEOC, Spring 1993), pp. 1–4. See also the earlier NOEOC study: John Logue and Cassandra Rogers, " Employee Stock Ownership Plans in Ohio: Impact on Company Performance and Employment." (Kent: NOEOC, 1989).

27) See also Jim Bado, Dan Bell, Catherine Ivancic, and John Logue, " Making Your ESOP More than Just a Piece of Paper: Creating an Ownership Culture " (Kent: NOEOC, 1992). The particular problems of supervisors in employee-owned companies are discussed in Jim Bado and Daniel Bell, " From Obstacles to Catalyst: Redefining the Role of Employee-Owner Supervisors " (Kent: NOEOC, 1992).

The Northeast Ohio Employee Ownership Center, located at Kent State University, has tried to encourage employee ownership and democratic management by offering both training programs and networking opportunities. The center lists the following as its activities: (1) organizing workshops and public education programs on ESOPs; (2) helping to find competent legal and technical advice for individuals in a buyout; (3) performing pre-feasibility assessments; (4) providing in-plant training sessions on employee ownership; (5) developing training sessions for employee-owners; and (6) facilitating cooperation among employee-owned firms. The center is also responsible for a prolific amount of research on employee ownership in Ohio (as the numerous citations in the present article testifies!)[28)]

Training programs which have been developed by the center emphasize six key components for all employees: (1) understanding how ESOPs work; (2) being able to read company financial statements; (3) knowing both their rights and responsibilities; (4) learning group decision-making; (5) gaining skill in problem analysis; and (6) changing attitudes by getting the "big picture" of how the company operates.[29)] The teaching style emphasizes student involvement rather than lectures, and includes activities such as role playing. In "The ESOP Game," for example, participants act as the board members of a toilet-roll manufacturer which is trying to "wipe out" the competition. A role-playing game for supervisors lets participants adopt different management styles—autocratic, democratic, pseudo-democratic, or laissez faire—to see which is the most effective in motivating employees.

The Center was also instrumental in setting up Ohio's Employee-Owned

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28) In addition to the articles on Republic Engineered Steels cited below, see the following (all published in Kent by the NOEOC): Selma Ford, "Making Better Decisions: Employee Participation at Reuther Mold and Manufacturing" (1991); Karen Thomas, "Recasting Workplace Roles: Employee Involvement at Quincy Castings" (1993); Selma Ford, "Developing Participation at Republic Storage Systems: A Study in Labor/Management Cooperation" (1993); and "The Case for Ownership," ed. J. Bado (1993).

29) Logue, Bell, and Ivancic, p. 8. See also the NOEOC pamphlet, "Employee-Owner Training: A Sampler of Training Programs Designed For Employee-Owned Enterprises."

Network, which began in 1989 and currently has approximately 41 member companies. Companies pay annual dues and share the costs for the center's employee ownership programs, forums, and retreats. Some programs are designed for specific groups, such as CEOs, supervisors, and ESOP committee members; others have been developed to meet the needs of particular companies. The network also gives employee-owners an opportunity to exchange information and experiences with each other. A catalogue compiled and published by the center lists the products and services of member companies, along with those of non-members. The catalogue is amazingly diverse, with heavy industry, manufacturing, transportation, insurance, printing, food processing, and many other areas being represented.[30] The center also publishes a biannual newsletter, *Owners at Work*.

Employee Ownership at Republic Engineered Steels

The history of Republic Engineered Steels goes back as far as 1886, when the Berger Manufacturing Company was established in Canton, Ohio. During the next few decades steel became an important industry in the area and a number of new steel companies were formed, including the Central Steel Corporation of Massillon, Ohio (site of the world's first electrified steel plant). A series of mergers resulted in the creation of the Republic Steel Corporation in 1930. The increased demand for steel in the late 1930s and Republic's role in supplying steel for the war effort enabled the company not only to survive the Great Depression but to expand.

This expansion continued in the post-war years. Numerous capital improvements and productivity gains were recorded in the 1960s and early 1970s. By the late 1970s, however, integrated steel mills in the U.S. were in a state of decline, despite improvements in cost and productivity and significant concessions from labor. A number of factors may have contributed to this decline, including overcapacity, the creation of competitive new "minimills," and foreign competition. Under pressure to further increase pro-

30) *Products and Services of Ohio's Employee-Owned Companies* (Kent: NOEOC, 1991).

ductivity, lower costs, and modernize facilities, Republic and the Jones and Laughlin Steel Corporation of Pittsburgh, Pennsylvania, then a subsidiary of the LTV Corporation, merged to form LTV Steel in 1984. In July, 1986, however, LTV declared bankruptcy. Its bar division was restructured the following year, but by October, 1988 the company decided that it could not afford to make the capital improvements necessary to modernize the bar division's facilities.

In May, 1989 LTV formally accepted a bid from its employees to purchase the bar division through an Employee Stock Ownership Plan. The purchase was formalized on November 28, 1989. The new company, renamed Republic Engineered Steels, Inc., presently has approximately 4,700 employee-owners, making it the largest employee-owned company in Ohio, and the second largest employee-owned steel company in the United States (Weirton Steel in West Virginia has about 7,200 employees). Republic currently has nine facilities located in Massillon and Canton, Ohio; Chicago, Illinois; Gary, Indiana; Beaver Falls, Pennsylvania; and Willimantic, Connecticut. Corporate headquarters are in Massillon.

Republic Engineered Steels is listed as a " Fortune 500 " company and is currently the largest integrated producer of high-quality bar and specialty steel products in the U.S. About 36% of Republic's output is sold to the automotive industry, and its customers include not only the " big three " U.S. automakers, but also the Japanese makers, Toyota and Honda (steel is also sold indirectly to Mazda, Nissan, and Mitsubishi). In addition Republic supplies steel to manufacturers of home appliances, sporting goods, machinery and tools, heavy equipment, ships, and aircraft (including the aerospace industry), among others.[31)]

Republic's employee buyout was initiated by the United Steel Workers of America (USWA), despite initial reservations on the part of both management and some union leaders. In 1985 Russell Maier, then president of LTV Steel's Bar Division and Republic's current CEO, answered negatively when asked whether or not he would consider being involved in an employee

31) Information from unpublished company documents.

buyout. Four out of nine local union leaders were also initially opposed to the deal. Lynn Williams, International President of the USWA, urged the rank and file to vote in favor of the buyout, however, and it was ultimately approved by a 62% majority.[32] To purchase the company each employee contributed an average of $4,000 for a total of $20 million; $190 million was borrowed from the Bank of Boston.[33] Non-union salaried employees' contributions were deducted against future wages, while union employees used money from special accounts. Employees expect the common stock to be fully allocated to them by 1997.

Despite the initial skepticism, once the deal was approved management and labor both plunged into a concerted effort to completely redesign Republic's management structure. A new contract went into effect in November, 1989. Certain key passages are worth quoting at length:

> The investment of capital alone will not establish Republic Engineered Steels, Inc. as the leading company among its competitors throughout the world. Another key step will have to occur. This will require the involvement of all employees in the continued success of the business. This can only take place through a change in attitude and atmosphere and by an understanding on the part of each employee as to what the business must accomplish to reach its goals. . . [C]hanges in attitudes cannot come about by written words but result from actions and deeds. The parties desire to eliminate adversarial relationships where they now exist and to create an environment of trust in which the most appropriate management style is a non-autocratic, cooperative style of management. This will provide for employee involvement and an increased sphere of input and responsibility for all employees enabling them to perform with limited or, in some cases, no supervison.[34]

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32) Details of the buyout are given in *Struggling to get onto the Same Side: The Experience of America's Republic Engineered Steels after a Union led Employee Buyout*, a research report prepared by Job Ownership Ltd. for Partnership Research Ltd. (London: 1991).

33) "From Confrontation to Cooperation" in *ESOProfile* (Washington: The ESOP Association, offprint, no date), p. 1.

34) *Agreement Between Republic Engineered Steels, Inc. and United Steelworkers of America, Production and Maintenance Employees*, November 28, 1989, pp. 2–3.

The change in attitude can also be seen in a statement made by Russell Maier two years after the new company was formed: "We must get 'ownership' of profitability by everyone in our organization. By structuring the company into appropriate profit centers, we will push control of and responsibility for financial results down into the organization."[35]

The main organizational medium for changing Republic's corporate culture has been the H-1 Committee (named after the section in the contract which originally described it). The committee includes members of senior management and plant managers, as well as eight local union presidents and two representatives of salaried employees.[36] A new management system initiated by the committee allows for meetings at various levels in the company so that the people who are actually doing the work can be involved in the decision-making process. Crew meetings are held weekly which employees are paid to attend. Department-level meetings and plant-level meetings are also held weekly—employees are permitted to attend the former on an unpaid, voluntary basis. Corporate-level meetings are held monthly. A variety of issues are discussed at each of the respective meetings and all employees have access to the minutes of all meetings.[37]

Republic has also invested $4.2 million dollars in an educational program intended both to give each of its 4,700 employees an overview of Republic's business operations and to help them understand their rights and responsibilities as employee-owners. The program was custom-designed by the NOEOC in collaboration with Republic's staff and follows a "train the trainers" model: employees are divided into small groups and trained by forty co-workers who have been previously trained by NOEOC staff members. The system is based on the idea that training is most effective and credible when conducted by one's peers. The classes are one hour long

35) *Struggling to get onto the Same Side*, p. 1.

36) Bado and Logue, p. 15.

37) Republic's new management system is described in Catherine Ivancic and Jim Bado, "Republic Engineered Steels, Inc. and the United Steelworkers of America: Courageous Co-leadership in a Changing Environment" (Kent: NOEOC, 1993).

and held about every six weeks; the intial program was designed to last 30 months but has evolved into a permanent project. The curriculum covers three basic areas: (1) ownership structure; (2) understanding financial statements; and (3) the company's overall business plan. Some of the specific class titles are "Understanding Republic's Balance Sheet"; "What Stock Ownership Benefits Do I Have?"; "Competition in the Bar Steel Industry"; and "Rights, Roles, and Responsibilities of Employee Owners."[38)]

Some effects of the new participatory system can be seen in the company's "Target 80" plan, initiated in 1991 with the goal of saving $80 million annually by cutting costs. The company actively solicited suggestions from employees and within a year more than 1,000 proposals were received. Each proposal was given a file number and assigned to a supervisor, who was required to respond to the proposal within a week. By February, 1992, 443 proposals had been implemented and about 300 others were under consideration.[39)] A plan to conserve water by recycling rinsing water was proposed by two supervisors and two hourly workers, resulting in savings of approximately $43,000 per year. Instead of paying thousands of dollars to remove 55-gallon steel drums containing industrial chemicals, the drums are now simply remelted to make more steel. More efficient sorting and recycling of scrap will result in savings of approximately $3.6 million. Not all of the suggestions have been so dramatic, however. Some have been as simple as removing unnecessary phone lines or replacing continuously running water fountains with water coolers. According to Vice President Harold Kelly, a total of $65 million in annual savings has been identified so far, and the company has already implemented $45 million of these.[40)]

Republic earned $4 million for its first seven months (Nov. 28, 1989—June 30, 1991). Despite a nationwide recession the company had an operat-

38) See Candace Moody and Catherine Ivancic, "Understanding Ownership: ESOP Training in Large Employee-Owned Firms, Owner Education at Republic Engineered Steels Inc." (Kent: NOEOC, 1991) and NOEOC's Republic training manual.

39) Regina Eisman, "A Democratic Republic" in *Incentive* (February, 1992), p. 2.

40) Personal interview with Harold Kelly at Republic Engineered Steels, Inc., Massillon, Ohio, July 20, 1993.

ing income of $14.3 million on sales of $566.1 million in the fiscal year ending June 30, 1992. Operating income more than doubled the following year to $33.5 million on sales of $646.2 million. Republic shipped 935,782 tons of steel in fiscal 1993 compared with 795,374 tons the previous year.[41] A new six-year contract between Republic and the United Steel Workers of America was ratified in October, 1993, which will give union workers a $1 per hour raise (retroactive to June 1993); a future $2 per hour raise if certain levels of savings in operating costs can be reached; a new pension plan with increased benefits; guaranteed employment security; severance pay of up to $10,000 for employees who voluntarily leave the company; and improved health and life insurance.[42]

The new employee-owned Republic has been honored with General Motors' "Mark of Excellence" award and other awards from Caterpillar and Ford; recently it also received Honda's "Production Support Award," given to suppliers that deliver goods with zero-defects 100% on time. In 1991 U.S. Labor Secretary Lynn Martin presented Republic with a LIFT (Labor Investing for Tomorrow) America Award in recognition of its efforts to reduce animosity between management and labor, and for identifying ways to increase customer satisfaction and reduce costs. Republic was one of four firms (including IBM, AT&T, and PepsiCo) to receive the award.

The recent recession has presented Republic with challenges, however. In 1991 management had to implement a reduction of its non-union salaried workforce by approximately 80 jobs. Plans to lay off several hundred union employees were discussed, but it was eventually decided by both labor and management that further cost-cutting efforts could save those jobs. The recession also forced Republic to delay a $400 to $500 million modernization plan. Recently, however, the company has announced plans to invest $165 million in a continuous cast direct billet mill complex at its Canton plant—a necessary investment if the company is retain its long-term competitiveness. In December, 1993 Republic was successful in selling

41) Figures are from *Business Cleveland* (October, 1990); *Modern Metals* (December, 1992); and *The Evening Independent* (September 2, 1993).

42) Reported in *The Free Press* (October 10, 1993).

$200 million of public bonds to pay off its bank and other debt. The company also arranged a $90 million bank revolving credit facility to be used for capital purposes.[43] In addition to the savings realized through the " Target 80 " plan, these measures should help to give the company a brighter investment outlook.

While the changes that have occurred at Republic have been dramatic, there is also a recognition that problems do not disappear overnight. Dick Holland, president of United Steelworkers Local 1566, comments that workers who have been through past labor-management strife may not want to admit that things have gotten better. But he believes that at least some of their current complaints are a direct result of the fact that, as employee-owners, they now have access to more knowledge about the company. Overall, relationships between labor and management seem to be moving in a positive direction, and Holland notes that grievances are down from over 100 per year to around fourteen at present.[44]

Both management and labor indicate that building trust is important in developing more cooperative relations. At present job descriptions still tend to be strictly defined and the contract is highly codified. Management would like to see greater flexibility, but the union is hesitant to simply " throw out all the rules " until a greater atmosphere of trust develops. Holland suggests, however, that while many workers still prefer just to work at one job and then go home, the problem-solving nature of Republic's new working style may begin to blur traditional job descriptions, involve employees in a wider range of tasks, and give them a broader perspective on the company as a whole.[45]

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43) See *The Canton Repository* (November 25, 1990); *The New York Times* (November 22, 1991); and *The Evening Independent* (October 7, 1993). Updated figures are based on personal correspondence with Harold Kelly.

44) Personal interview with Dick Holland at Republic Engineered Steels, Inc., Canton, Ohio, July 22, 1993.

45) *Ibid.*

Social Implications of Employee Ownership

Several social implications of employee ownership are worth noting in light of America's current economic situation. First, employee ownership helps to preserve local manufacturing jobs in the face of pressures from a global market. Second, it tends to spread wealth more widely by deconcentrating capital ownership. Third, it anchors capital in local communities and has a rippling effect on the entire local economy. Fourth, it preserves a local tax base and lessens people's dependency on welfare and other social services. Fifth, it tends to improve corporate productivity and competitiveness. And sixth, it gives employees a sense of having more control over their lives.

Employee ownership cuts across traditional ideological lines in the U.S. and has received support from both Democrats and Republicans, and politicians as different as Ted Kennedy, Jesse Jackson, and Ronald Reagan.[46] Conservatives tend to like ESOPs because they expand the opportunities for private ownership, individual initiative, and economic independence. Liberals tend to like them because they empower workers, minorities, and women, and promote a more egalitarian society. Despite these idealistic aspirations, however, employee-owned firms are still expected to compete in a demanding and rigorous market economy.

Employee ownership also compares favorably with cooperative management styles in Japan. As with Japanese companies, employee-owned companies in the U.S. tend to have less confrontation and greater cooperation between management and labor. Employees tend to exhibit greater loyalty and commitment to their companies. Companies in turn are increasingly taking the interests of employees into consideration rather than focusing exclusively on the bottom line. Compensation is more flexible, much like the Japanese bonus system: in bad times workers may be more inclined to take a pay-cut than to resort to layoffs; in good times workers share in the company's profits. Executive salaries are also much less extravagant than in traditional U.S. companies and managers enjoy fewer perks, such as separate

46) Ivancic and Logue, "Employee Ownership and the States," p. 5.

dining rooms and private parking spaces.

As with Japanese firms, employee-owned companies in the U.S. are investing more time and money in employee education. Workers have more information about the company and a more wholistic outlook. Employee-owned companies are also moving in the direction of more flexible working styles and, perhaps eventually, greater job rotation. An attitude of "getting the job done" through cooperative efforts rather than "just doing my job" through the strict observance of work rules may be emerging. The new participatory working style is also showing that greater productivity occurs not by simply telling workers what to do but by involving them in the decision-making process. More time is spent in meetings, but once decisions are made they can be implemented with greater speed and efficiency. There is less need for supervision, and those supervisors who remain act more as facilitators than as authoritarian commanders. Finally, capital is being retained by employee-owned companies and reinvested in plants and equipment rather than being skimmed off for lucrative, but questionable investments elswehere. The focus is more on the long-term viability of the firm than on short-term profits.

On the negative side, while more entrepreneurial activity may be undertaken by existing corporations, there may be less incentive to create new businesses. Employee loyalty in both U.S. employee-owned companies and Japanese firms may also result in less social mobility since workers are unable to change jobs easily. Both types of companies can also foster a spirit of clannishness that diminishes worker solidarity across company lines. Furthermore, both types are susceptible to the development of a two-tiered workforce between employees who are "full members" of the company and those who are not. Of course, there are also differences between employee-owned companies in the U.S. and Japanese firms. Whereas Japanese firms ground themselves ideologically on notions of harmony and cooperation, U.S. employee-owned companies ground themselves more on the principles of democracy and empowerment. Whereas Japanese firms tend to limit actual employee ownership, some employee-owned firms in the U.S. are now 100% employee-owned.[47] And whereas Japanese firms often retain an implicit hierarchical management structure which may discourage employee initiative, some employee-owned firms in the U.S. are moving towards genuinely democratic forms of employee participation that could eventually further stimulate creativity.

47) Ungeheuer, *op. cit.*, notes that about 2.2 million employees in Japan were enrolled in ESOPs in 1989, although Japanese companies typically limit workers to to less than 1% of the total number of shares.