ESOPs Can Be Part of the Answer to Low-Wage Manufacturing

Bill McIntyre

Juppose a group of 100 people were self-sustaining. If each person had \$50,000, then the total community would have \$5,000,000. As they conducted business amongst themselves, individuals might accumulate more or less than \$50,000; however, the total wealth of the community would remain at \$5,000,000.

Now suppose we have situation A where our little community produces a product that someone in another community wants to buy, and our community sells the product at a profit. The wealth of our community has now increased greater than \$5,000,000. Because we produce things that people outside our community desire, we can increase the wealth of our community. This is good!

Now suppose we have situation B where our little community does not produce a product that is needed in the community and we have to buy the product from outside our community. Money flows out of our community, and the wealth of our community is now less than \$5,000,000. Because we're not producing things that we need, we use some of our existing wealth to purchase those goods, but, in doing so, we reduce the wealth of our community. This is NOT good!

Situation A is China; situation B is the United States.

And China has an opportunity for continued improve-

ment because of the freedom of financial choice it has as a nation due to its generating a budget surplus while operating the country.

The US, in contrast, faces numerous challenges due to large deficits and the flight of manufacturing jobs overseas which constrain the available options for managing the country. the Bush and Obama administrations responded to the Great Recession providing government funded stimuli to the economy. But, ultimately, once the stimulus projects stopped, too many Americans still did not have jobs, and that's because we are no longer the manufacturing engine for the world.

Individual American

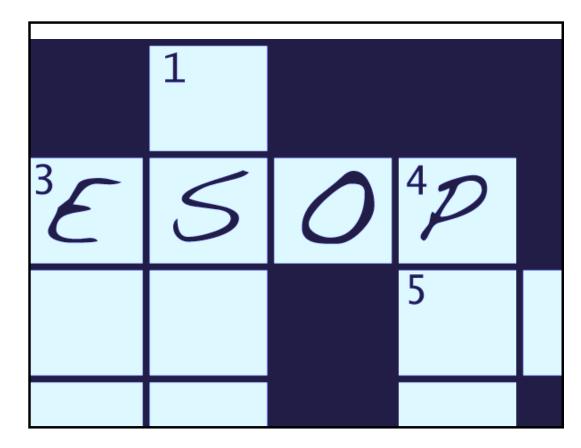
companies, each behaving perfectly logically, chased cheaper labor to manufacture their products in China – because if they didn't, their competitors would, and then they'd be unable to compete.

Individual American consumers, each one behaving perfectly logically, purchased lower price products because of the perception that they were of comparable quality – let their neighbors pay the higher prices. They themselves will be smart and save money and pay the lower price.

Unfortunately, when you add up all the individual company decisions and all the individual consumer decisions, all perfectly logical, you begin to realize that the US has a problem that could become a really huge problem.

Andy Grove, retired CEO of Intel, was profiled in the Stanford Graduate School of Business online magazine, and pointed out that individual companies pursuing their own agendas leads to offshoring manufacturing and even research and development to save money, but the result is a gradual loss of the expertise and knowledge needed to create and scale up manufacturing for the next great industries, such as batteries and solar panels for clean en-

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ergy. "Without scaling, we don't just lose jobs. We lose our hold on new technologies," Grove contends. "Abandoning today's 'commodity' manufacturing can lock you out of tomorrow's emerging industry."

Further, Grove warned in the same Stanford GSB magazine article, published prior to the whole Occupy Wall Street phenomenon, that "unless the country wakes up to the real challenge of creating jobs and starts to chip away at stubbornly high unemployment, it could face social unrest it has not seen in generations. The only hope is to restore a manufacturing base in the United States."

Restoring the United States' manufacturing base is beyond the scope of this article; however, stopping the outflow of manufacturing jobs is not.

The US is facing a tsunami of baby boomer business owners who are approaching retirement age and who will need to transition their company to the next generation. The statistics on successful business transitions are dismal – only 15-35% of business transitions are successful, with the more recent studies yielding the lower percent.

Unsuccessful business transitions mean loss of jobs.

Business owners who develop a succession plan increase their chances for a successful business transition. Economic development professionals recognize that the easiest job to sustain is one that is already here. It's much harder to attract a new job than it is to maintain an old one.

However, there is no glamour in keeping existing jobs. There will be no headline: 40 Jobs Saved Due to Owner Having a Succession Plan.

We believe that the lack of succession planning is the #1 preventable cause of job loss in the U.S. What can be done to change that scenario?

State economic development officials and ESOP service providers can be part of the solution.

First, business owner succession planning programs should be recognized as economic development programs.

Second, ESOP service providers should take every opportunity to educate other service providers – attorneys, bankers, accountants, insurance brokers, and financial planners – of the option for their business owner clients to sell their companies to their employees through an ESOP or worker-owned cooperative.

Hugh Reynolds of Crowe Horvath LLP stated years ago at an OEOC Advisory Board meeting that "service providers will not recommend for their clients an option that they do not have at least a basic understanding of themselves, and most service providers do not have a basic understanding of ESOPs."

We at the OEOC have had a business owner succession planning program in Ohio for years, and, after hearing Reynolds' advice, have developed programs to educate non-ESOP service providers about the basics of ESOPs, along with the recommendation that they refer to us any clients for whom an ESOP might be appropriate.

ESOPs are in the right place at the right time. We who live in the employee ownership world are aware that studies consistently show that employee owned companies that have an ownership culture consistently outper-

form non-employee owned companies by 2-3% in just about every performance indicator measured. They are more competitive and more successful. Employee owned companies are simply a better way of doing business.

So, let's stop the drain of American jobs to China (and elsewhere).

As Dick Peterson of the Rocky Mountain Employee Ownership Center in Colorado recognizes in his article, let's encourage all 50 states to fund business owner succession planning programs as economic development programs for their state.

Let's educate those aging baby boomer business owners of the advantages of business owner succession planning and of the option of selling their business to their employees via an ESOP or worker-owned cooperative.

And then let's help those new ESOP companies establish and maintain an ownership culture so they can achieve performance improvements.

Employee-owned companies tend not to send their jobs overseas. They keep their jobs here in the United States. Their companies are more competitive in the global marketplace. They create additional jobs. And those companies create real wealth for their employee owners.

Yes, indeed, ESOPs can be part of the answer to the China problem. Maybe they should be a large part. oaw



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We strive to improve and enhance the ESOP services we provide to our clients with solutions like Crowe ESOP Advantage, a Web site designed to improve administration and your employees' understanding of their ESOP.

To learn more, visit www.CroweESOPAdvantage.com, or contact Lori Stuart at 614.280.5229 or lori.stuart@crowehorwath.com.

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