

Ohio's Oldest ESOP Alloy Engineering's Success Story

Extending ownership to all employees, involving all in managing the business and tying compensation to profits brought a renaissance to Alloy Engineering twenty years ago. Since then, Ohio's oldest ESOP has maintained a spirit of universal participation while constantly evolving the details of its management. Headquartered in Berea, the company was founded in 1943 by Paul Menough at the age of 65 in the attic of his home in Rocky River, Ohio. A mechanical engineer and foundry expert who had a successful career in engineering sales, he started the enterprise because he was interested in using new alloys to improve high temperature metal casting processes.

Menough's ideas are recognized today as important innovations in the annealing industry.

Lou Petonovich, Alloy's President, explained, "As a custom job shop, we continue to develop innovative uses of alloys for the design and manufacture of one-of-a-kind exotic products and high precision fabrications." The firm has 75 employees at its Berea location.

Succession Planning with an ESOP

Menough believed that a business needed well-paid, capable people who were given the opportunity to use their creativity. "Alloy's philosophy hasn't changed much in 63 years," explained Petonovich, "though today we have a work culture based on what an ESOP can do."

Following Menough's death in 1960, his son-in-law Dale Vonderau took over leadership of the business, and by 1974, he was looking for a creative way to pass the reins of leadership to involve everyone committed to the firm. One of the company's outside directors, local attorney Jack Conway, suggested the unusual idea of an ESOP after hearing Louis Kelso, who originated the ESOP concept. In 1974, Alloy became the first business in Ohio with an ESOP and the third or fourth ESOP in the country.

"The ESOP appealed to us," recalled Vonderau. "We enrolled the salaried and management group in the ESOP plan first, using a profit-sharing stock bonus

plan. The family stock was sold over time and the trust became the majority shareholder in 1977. It's a good system for a small company."

A New Partnership

In 1985 company management opened the ESOP to Alloy's entire workforce, following a bitter strike. By 1986, all employees were ESOP participants and the company became 75% employee-owned. As Januario Gomes, recounted, "1985 was a turning point. The company was born again. I was the first shop employee to participate in the ESOP." Gomes, who started as a welder-fitter, is now the plant superintendent, overseeing two shifts. Alloy became 100% ESOP-owned in 2000.

"The last 25-30 years have been good," explained Petonovich, "Alloy belongs to all of us and each of us has a direct impact in making the company successful. We share the first dollar of profit monthly through our variable compensation plan. At year-end, we contribute 6-8% of payroll on average to the ESOP and do a 401(k) match. The rest of our profits go toward the growth of our stock value."

Elements of Employee Involvement

Information is shared at monthly meetings held between first and second shift. After each meeting Petonovich walks around the shop to respond to any questions that didn't get asked during the meeting. Additional information on sales and shipments is posted on bulletin boards.



"The variable compensation plan is self-motivating," explained Paul Rush, who started with Alloy as a fabricator in 1991 and now coordinates the 15-person prep crew. "Employees see they have a future here so you don't have to stand over people. We are all concerned with hours and beating the job."

Rush also serves as the ESOP representative for shop employees and attends the annual ESOP valuation meeting of Alloy's board of directors. "I didn't understand the ESOP when I volunteered for this role, but now I try to answer employees' questions."

Alloy offers wages comparable to other firms and better benefits. Still, as Alloy's controller, Pat Henneberry, explained, "It's hard to find good people with the skill level we need." Shopfloor employees screen and test recruits.

"We look for people with good attitudes and train them to fit into our system," explained Gomes. "We have a two year learning curve, but you won't be here long if you don't care. We do a good job of bringing people from the ground floor up." Alloy's top salesman for the past five years is an employee who started as a welder-fitter in 1985.

"The ESOP is one factor in our success among a variety of profit sharing mechanisms that help us keep our engineering talent here," explained Rick Turiczek, a mechanical engineer at Alloy since 1988. "Alloy's culture is unique in the engineering field because we are profit-aware and commercially oriented."

Leadership development

To promote employee development, departmental teams were set up to bid on jobs, bring employees closer to customers and provide team members with training for promotions.

Though phased out after about a year, the team concept successfully evolved into several interdepartmental committees. Comprised of four or five employees, the committees make recommendations to the board on capital expenditures, health insurance, manufacturing processes and technology, and safety. Turiczek

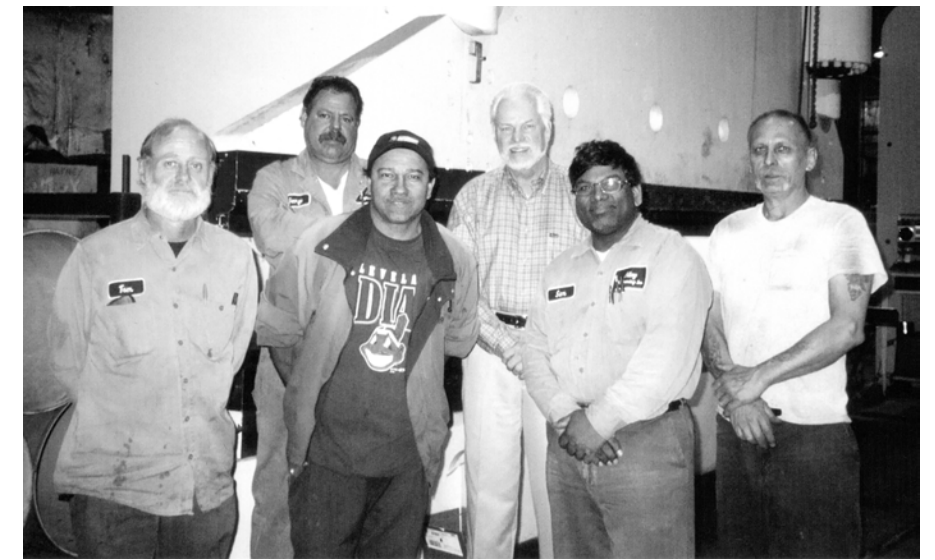
explained, "Employees recognize their decisions are important for our short term and long term success, so we have lots of participation in our committees."

The manufacturing committee, for example, includes representatives from both shifts and meets monthly to lower costs and improve productivity. Employees give their suggestions to committee members and read committee agendas and action items posted on the bulletin board.

Does an ESOP make sense in today's small business workplace?

"Employee involvement is not an easy way to manage," explained Petonovich. "Employees must be educated, cross-trained and able to make necessary changes almost daily. Managers have to be willing to respond to difficult questions. We have not given raises in 15 years, but if profits are out there, we share it."

Alloy has grown dramatically. "Our focus is diversification, finding other industries that use our competencies," explained Turiczek. Alloy purchased additional product lines in 1998 and 1999, acquired two competitors in 2002 and 2003, and just opened a new facility in



Several of the ESOP participants who have worked together over the past 20 years to build a successful ownership culture at Alloy Engineering, from left to right: Tom Hathcock, George Ibranyi, Jan Gomes, Lou Petonovich, Bhalkaran Samaroo and Rich Scheimann.

Wellington whose employees are not included in the ESOP.

"The longer we live with our ESOP, the more we like it," says Vonderau, who still works most mornings at Alloy. "We wouldn't have survived without the

ESOP. Small companies face a capital shortage. We have to work as a team and create our own capital. Small business can't survive today without employees having a stake and working together." OAW



(Left) Burke Inc. receives 2006 Employee-Owned Company of the Year Award from the OH/KY Chapter of The ESOP Association. Michael Keeling of The ESOP Association presented the award to Michael Baumgardner, President and CEO of Burke, Inc. Headquartered in Cincinnati, the firm is a leader in market research;

(Center) The ESOP Committee of the Prentke Romich Company of Wooster won the 2006 Group Excellence Award from the OH/KY Chapter of The ESOP Association. PRC develops and makes communication devices for people with severe disabilities. L to R, Paul Richey, Elaine Koch, Keeling, Heidi Schaad, and Cherie Weaver; (Right) Linda Jones of Software Solutions in Lebanon is the 2006 Employee-Owner of the Year for the OH/KY Chapter of The ESOP Association. Linda is a Customer Support Representative and member of the firm's Communication Committee. Software Solutions is a 100% ESOP-owned provider of accounting software to over 200 government agencies in Ohio and surrounding regions.