



SAINT • XAVIER UNIVERSITY

Success with Purpose.

**National Center for
Employee Ownership**

**Ohio Employee
Ownership Center**

The ESOP Association

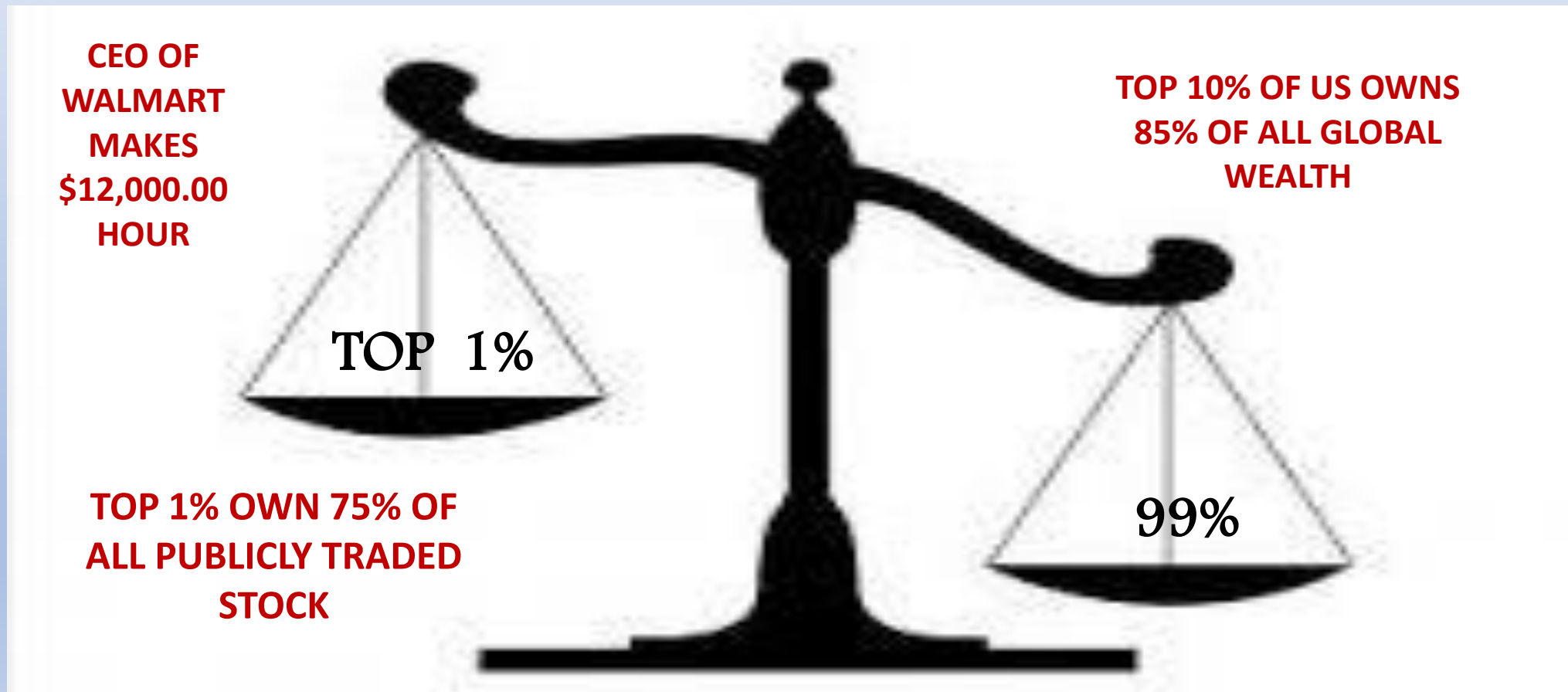
Suzanne Cromlish, Ph.D., MBA, MHA

Case Western Reserve University

cromlish@sxu.edu

US ECONOMY - GLOBALIZATION & OUTSOURCING CREATING WEALTH INEQUALITY

US is Number 1 in the Developed World for Wealth Inequality

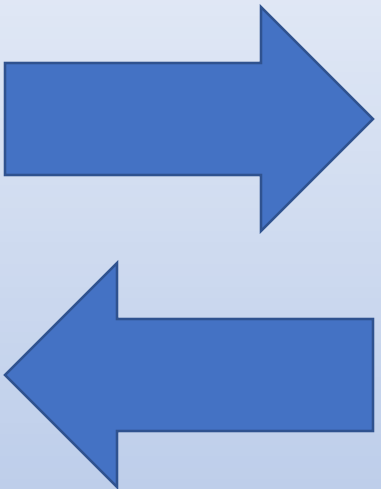


CORPORATIONS PURCHASE COMPETITION

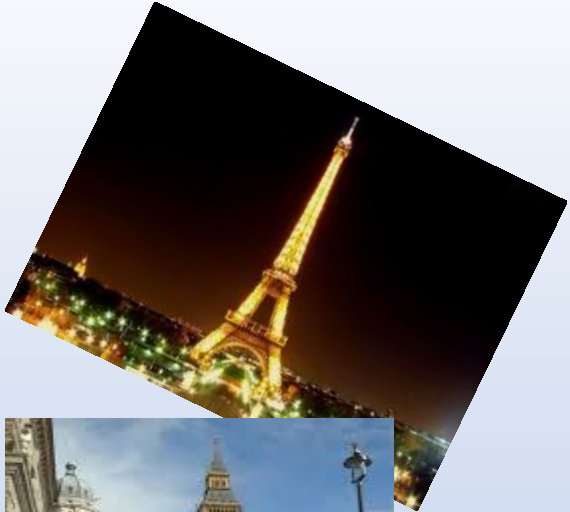


**BECOME TOO BIG TO FAIL
AFTER MANAGEMENT ERRORS
REQUIRE GOVERNMENT BAILOUTS**

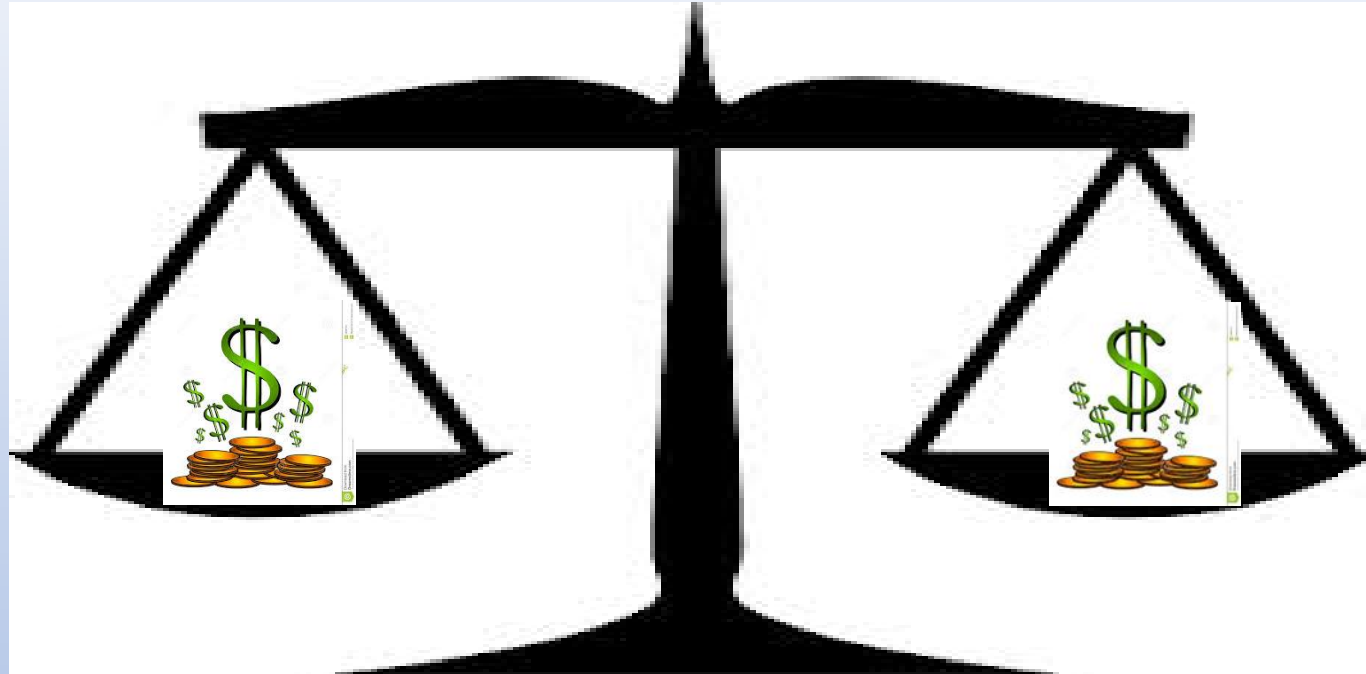
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9000 ESOPs in US – 13 Million Employees ~ \$1.5 Trillion in Assets



HIGHER WAGES

**RESIDE NEAR THE OPERATION
IN THE SAME COMMUNITY**

SUSTAINABLE & SOUND

**ENVIRONMENTAL DECISIONS
BUILD COMMUNITY WEALTH**

ESOPs LESS WEALTH INEQUALITY

**IT CAN
HAPPEN!!!**



**IT CAN
HAPPEN!!!**

Receptionist employed for years at a salary of \$10.00 hour retired with \$3 ½ million

Employee with \$40K annual salary forced to leave employment early due to his wife's medical condition - ESOP retirement account had 10 yrs. salary - without the ESOP, he would have had nothing

Lay workers with annual salaries of less than \$40K are able to retire at 55 yrs. of age with a million dollars



IN USA:

7TH LARGEST PRIVATE COMPANY

MOST PROFITABLE GROCER

LARGEST ESOP IN AMERICA



NET MARGINS IN 2014

PUBLIX 5.6%

WAL~MART 3.8%

ALL OTHER COMPETITORS 3.8%

KROGER 1.6%

WHOLE FOODS 3.9%



1000 HOURS OR ONE YEAR EMPLOYMENT



8.5 %
TOTAL PAY
IN COMPANY
STOCK



PROMOTE FROM WITHIN
CHARTS POSTED IN STORES DEFINE
ADVANCEMENT PROCESS





**EVERY
13
WEEKS**



**20% QUARTERLY COMPANY PROFITS
DEPOSITED IN POOL...20% IS PAID
TO EMPLOYEES IN CASH**

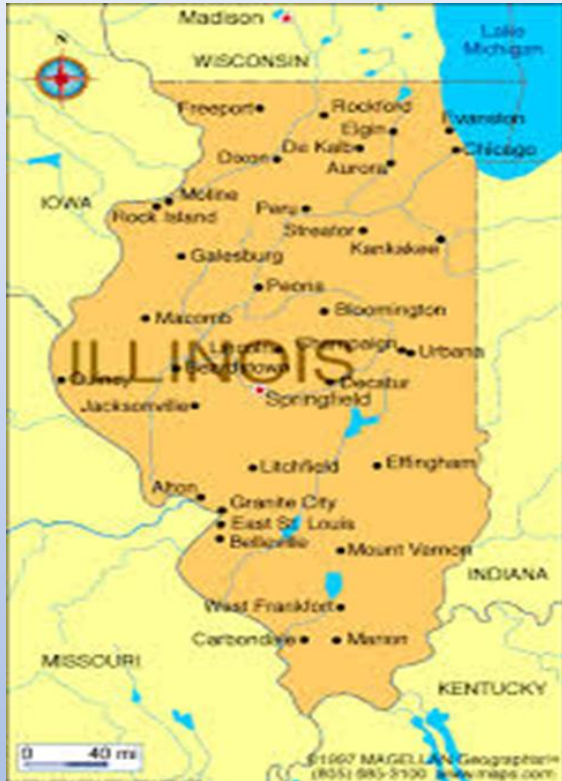
HOW MANY ESOPS ARE IN.....



THE STATE OF CHICAGO

**THE COUNTY
OF ILLINOIS**

THE STATE OF ILLINOIS



Approximately:

500 ESOPs

99% Privately Owned

Average 250 Employees

ESOP 15 yrs. in Place

Average 61% Employee-Owned

35% report 100% Employee Ownership



THE TOP 100 ESOPs IN THE US IN ILLINOIS

NAME	LOCATION	NUMBER OF EMPLOYEES	ENTERPRISE TYPE
AMSTEAD INDUSTRIES	CHICAGO	16,800	INDUSTRY COMPONENTS
KEHE DISTRIBUTORS	ROMEDEVILLE	4,000	FOOD DISTRIBUTORS
HOLLISTER, INC.	LIBERTYVILLE	2,400	MEDICAL SUPPLIES
S & C ELECTRIC	CHICAGO	1,700	ELECTRICAL EQUIPMENT
MARTIN & BAYLEY, INC	CAMI	1,500	CONVENIENCE STORES
HOLDEN INDUSTRIES	DEERFIELD	1,310	MANUFACTURING
CCMSI HOLDINGS	DANVILLE	1,180	THIRD PARTY ADMINISTRATION

Employee ownership keeps businesses and jobs in state.



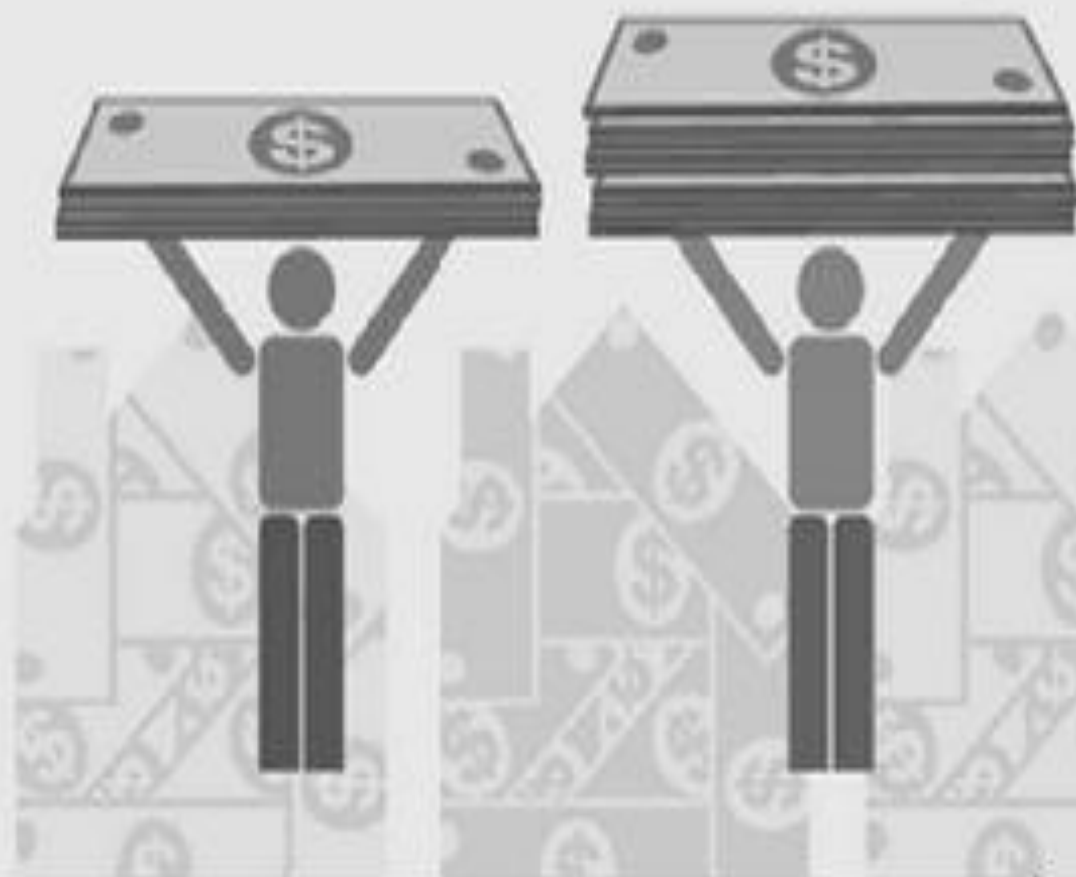
ESOPs SAVE BILLIONS IN UNEMPLOYMENT WORKERS COMPENSATION

Employee ownership builds community wealth.

Employees at ESOP companies have **2.5x greater** retirement accounts.

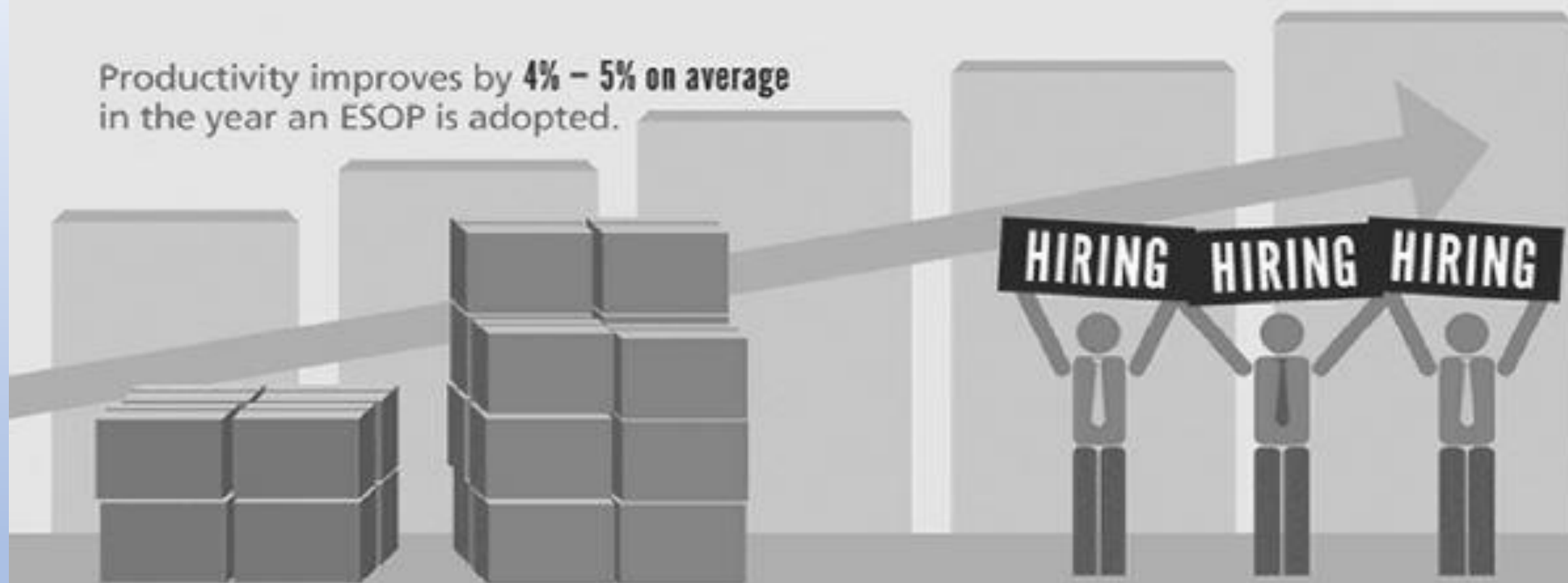


Employees at employee-owned companies receive **5% - 12% more** in wages.



Employee ownership improves business performance.

Productivity improves by **4% – 5% on average** in the year an ESOP is adopted.



Over a 10-year period, ESOPs have **25% higher job growth** than comparable companies without an ESOP.

SUCCESSFUL ESOPs

PROGRESSIVE MANAGEMENT IMPLEMENTATION

Open Book Management Strategies
Open Door Communication Policies
Employee Engagement & Participation



ENHANCE PRODUCTIVITY
IMPROVE PROFITABILITY

Employees are **Personally & Financially Empowered** to improve performance of the company





70% AMERICANS

**Owning a share in
the workplace**

**Workers share in
successes**

**Support Employee
Ownership**

??? WHY ARE THERE NOT MORE ESOPs **???**

**HOW CAN THERE BE MORE ESOP
???** PARTICIPANTS **???**

1. Employees purchase the company from a retiring owner
- more prevalent
2. Existing ESOPs companies acquire other companies &
roll them into their ESOP – limited studies

**WHAT CAN WE LEARN ABOUT ESOP
???** ACQUISITIONS **???**

RESEARCH QUESTION

??? How Do ESOPs Accomplish Successful Acquisitions ???

What, if any, Organizational Behavior Patterns are Associated with this Process ???



Empowering the 99%...One ESOP At A Time!



RESEARCH GOAL: As ESOP organizations complete successful acquisitions, Employee Ownership participants increase, thereby creating a positive impact upon our current US economic situation of wealth inequality.



Steps in the Acquisition Process



*Better
together*

???

ACQUISITIONS

???

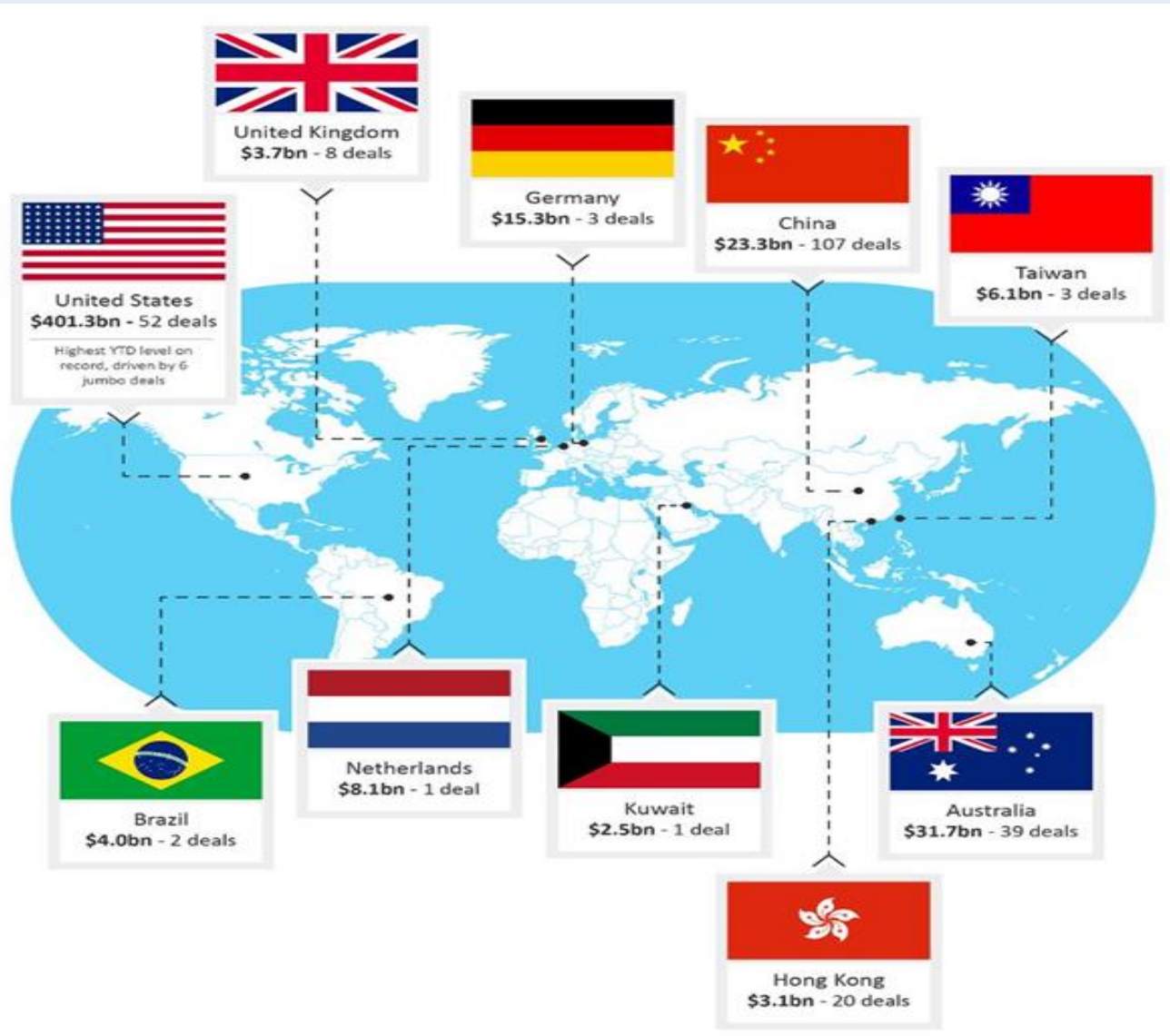
Dramatically Increasing since 2005

BENEFITS:

Accelerate Expansion
Competitive Advantage
Expand Product Lines
Established Customer Base
New Technology
Synergies
Diversification
Geographic Expansion
Expanded Market Share



M&A ECONOMIC PERSPECTIVES 2016



TOP 10 NATIONS – WITHDRAWN DEALS

2016 RECORD YEAR – \$ 4.7 TRILLION WORTH OF DEALS ANNOUNCED

Doubled from 2015 with large transaction failures

Total Value of withdrawn, rejected, or expired offers at highest level since 2007

US – top of list for withdrawn deals

Failed deals – set new records

47% failed or appeared to not be worth the deal

(Dealogic Research Institute NYC, 2016)

??? WHY ???

3 MAIN FAILURE REASONS – Straub (2006)

1. Acquiring Company (AC)– chooses incorrect target company from **strategic mgmt. perspective** – similar markets & production operations, complement AC with market & purchasing power
2. Target Company (TC) – poorly integrated from **organizational behavior perspective** – usually represented by acquisition experience, relative size AC to TC, & cultural compatibility
3. AC – Overestimates value of TC – from **financial perspective** represented by acquisition premium, bidding, & due diligence processes

Transaction Advisors

Studied 1600 Companies from Diverse Industries

Recommend 5 Step Model for Successful Acquisitions

- 1. Accountability Sharing** – business units, execs., & BOD
- 2. Commitment to Due Diligence** – sophisticated view of target company resources
- 3. Cultural Integration** – design & implement repeatable model to optimize momentum
- 4. Comprehend Emotional Reactions** – excitement & optimism vs. fear of uncertainty
- 5. Post-Acquisition Reinvestment**

MIXED METHODS PROJECT DESIGN

PHASE 1 Qualitative – 30 INTERVIEWS - ESOP Executives with Acquisition Experience – Open, Axial Coding & Emerging Themes

PHASE 2 – Quantitative – 3700 Internet Surveys Members of ESOP Associations – 86 respondents – Data Analyzation

Phase 1 & 2 are Self-Reported

PHASE 3 – Qualitative – 25 Interviews – ESOP & Non-ESOP Consultants with Acquisition Experience – **3rd Party Viewpoint**

PHASE 1 ~ E S O P COMPANY ACQUISITION TABLE

<u>Cust</u>	<u># Acq</u>	<u>Type</u>	<u>Reason</u>	<u>Results</u>
1	2	Mfg	EMS / EG	BOTH SUCCESSFUL / ALL TC HIRED
2	1	Mfg	EMS	SALES DOUBLED IN 4 YRS. / ALL TC HIRED
3	4	Serv	EMS / EG	2 SUCCESSFUL / 1 UNSUCCESSFUL / ALL TC HIRED
4	75	Serv	EMS / EG	ALL SUCCESSFUL / ALL TC HIRED
5	8	Serv	SYN / EMS	ALL SUCCESSFUL / ALL TC HIRED
6	250	Serv	EMS / EG / DV	ALL SUCCESSFUL EXCEPT 1 / ALL TC HIRED
7	2	Mfg	EMS / DV	BOTH SUCCESSFUL / ALL TC HIRED
8	1	Serv	EMS / SYN / EPL	UNSUCCESSFUL
9	2	Serv / Mfg	EMS / EG / DV	BOTH SUCCESSFUL / ALL TC HIRED / DOUBLED WORKFORCE
10	3	Serv	EMS / EG / NT	ALL SUCCESSFUL / ALL TC HIRED
11	30	Serv / Mfg / Supply Chain	EMS / EG / SYN / NT / DV	ALL SUCCESSFUL EXCEPT 1 / ALL TC HIRED
12	3	Mfg / Serv	EMS / SYN / NT	ALL SUCCESSFUL / ALL TC HIRED
13	1	Serv	EMS	SUCCESSFUL / ALL TC HIRED
14	10	Serv	EMS / EG / SYN / DV	ALL SUCCESSFUL EXCEPT 1 / ALL TC HIRED
15	3	Mfg / Serv	EMS / SYN / NT	ALL SUCCESSFUL / ALL TC HIRED
16	2	Supply Chain	EMS / EG / SYN	BOTH SUCCESSFUL / ALL TC HIRED / STOCK QUADRUPLED
17	15	Serv	EMS / EG / SYN	ALL SUCCESSFUL EXCEPT 1 / ALL TC HIRED / SALES DOUBLED
18	3	Mfg / Supply Chain	EMS / SYN / DV	ALL SUCCESSFUL EXCEPT 1 / ALL TC HIRED / SALES DOUBLED
19	5	Serv	EMS / EG / SYN	ALL SUCCESSFUL EXCEPT 2 / STOCK GREW 10% ANNUALLY
20	27	Serv / Supply Chain	EMS / EG	ALL SUCCESSFUL EXCEPT A FEW / SALES QUADRUPLED
Total	442			12 UNCESSFUL OR 2.5%

20 EMS – 12 EG – 8 SYN – 6 DV – 4 NT – 1 EPL

PHASE ONE – QUALITATIVE STUDY

INTERVIEWED 30 ESOP EXECUTIVES WITH ACQUISITION EXPERIENCE

1510 OPEN CODES FROM ALL 30 INTERVIEWS - 79 AXIAL CODES

8 EMERGING THEMES

Shared Vision – 80 references

Strategic Planning – 80 references

Altruistic Behavior – 74 references

Continual Inquiry – 26 references

Ethical Values – 74 references

Long Term Vision – 35 references

Open Book Management – 43 references

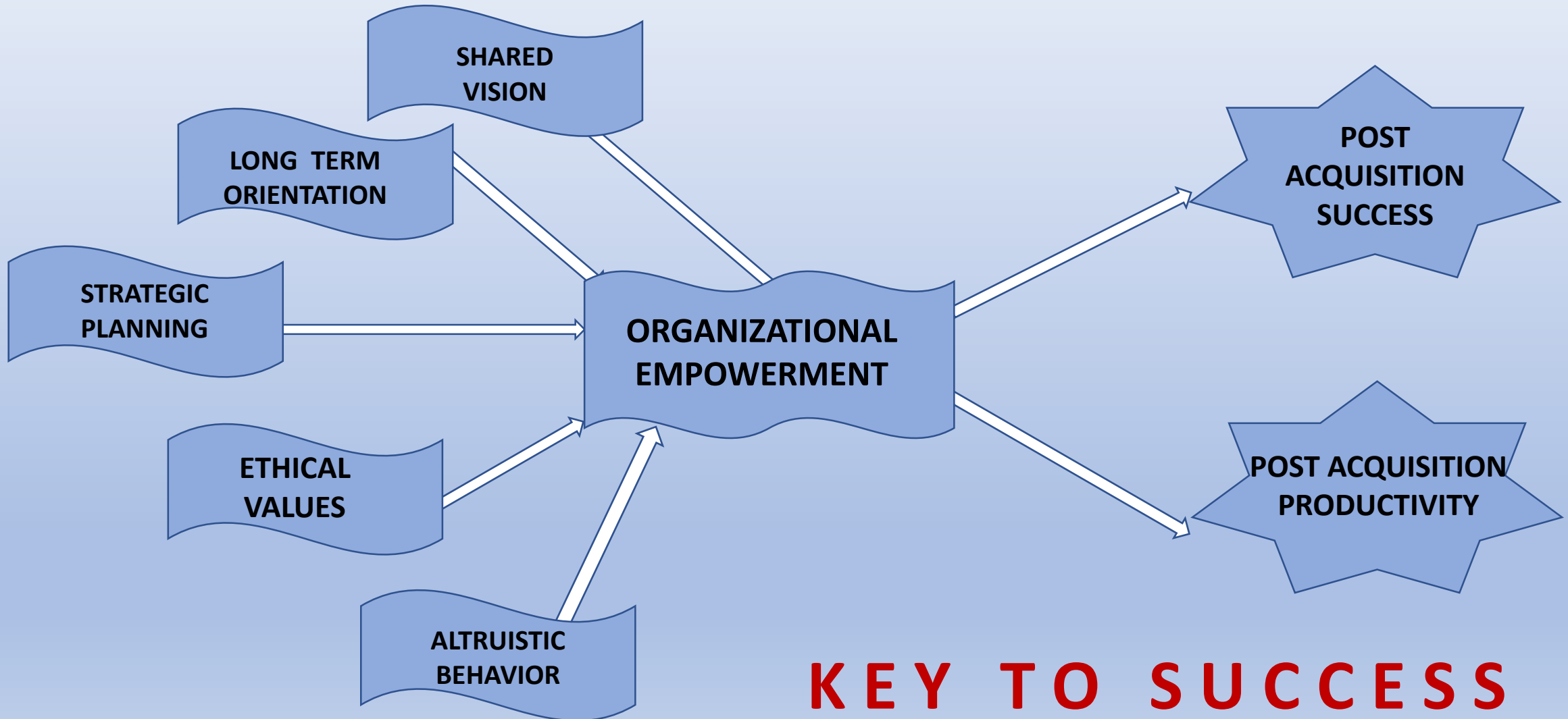
Open Door Communication – 43 references



442 TOTAL NUMBER OF ACQUISITIONS - ONLY 12 UNSUCCESSFUL
EMPLOYMENT OFFERED TO 95% OF ACQUIRED EMPLOYEES

THEORETICAL MODEL

ORGANIZATIONAL BEHAVIORS



PHASE TWO ~ QUANTITATIVE STUDY

Marketed to all 3 US ESOP Associations:

The ESOP Association – Washington, DC

The National Center for Employee Ownership
Oakland, CA

The Ohio Employee Ownership Center – Kent, OH

Internet Survey - 39 Questions & 25 Demographic Questions

Emailed to all 3700 Members ~ 86 Respondents

PHASE 2 ~ FINDINGS ~ 86 Respondents

467 ACQUISITIONS COMPLETED

465 FULFILLED EXPECTATIONS

442 CONSIDERED SUCCESSFUL

NUMBER OF ESOP ACQUISITIONS IS 5 TIMES HIGHER SINCE 2011

81 of the Acquiring Companies Offered Employment to 90~100% of the Target Company Employees

62 Acquiring Companies & 43 Target Companies Implement

OPEN BOOK MANAGEMENT

79 Acquiring Companies & 70 Target Companies Implement

OPEN DOOR COMMUNICATION

ALL HYPOTHESES SUPPORTED

Path Coefficients & P-Values

PATHS	COEFFICIENTS	P-VALUES
PATH	COEFFICIENT	P-VALUE
EV>OE	0.256	<0.0010
SV>OE	0.432	<0.0010
LTO>OE	0.298	<0.0010
SP>OE	0.263	<0.0010
AB>OE	0.143	0.005
OE>PA PROD	0.331	0.006
OE>PA SUCCESS	0.543	<0.0010

ALL PATHS ARE SIGNIFICANT
STRONGEST EFFECTS:

Shared Vision to Organizational Empowerment

Organizational Empowerment to Post-Acquisition Success

WEAKEST EFFECT:

Altruistic Behavior to Organizational Empowerment

5 CONTROLS – ALL INSIGNIFICANT:

Number of employees

Percentage of co. owned by ESOP

Number of acquisitions completed

Open book Management

Open Door Communication

PHASE 3 ~ CONSULTANTS

INTERVIEWS

3rd Party Viewpoint



COMPARE & CONTRAST

ESOP VS. NON-ESOP

ACQUISITIONS

PHASE 3 FINDINGS ~ 25 INTERVIEWS

Number of Acquisitions Previous 5 years:

16 ~ ESOP Consultants ~268

9 ~ Non-ESOP Consultants – 525

Percentage Meeting Buyer Expectation:

ESOP Consultants ~ 91% ~ from 268 acquisitions

Non-ESOP Consultants – 74% ~ from 525 acquisitions

Percentage Exceeding Expectations:

ESOP Consultants – 43% ~ from 268 acquisitions

Non-ESOP Consultants – 23% ~ from 525 acquisitions

FINAL RESULTS

50% of Acquisitions FAIL in Corporate Non-ESOP World

PHASE 1 ~ 442 Acquisitions Completed ~ 12 Failures **97.5% Success Rate**

PHASE 2 ~ 467 Acquisitions Completed

465 Fulfilled Expectations ~ **99% Success Rate**

442 Considered Successful ~ **95% Success Rate**

PHASE 3 ~ Consultants ~ Meeting Buyer Expectation:

16 ESOP ~ **91%** ~ 268 Acquisitions

9 Non-ESOP ~ **74%** ~ 525 Acquisitions

Percentage Exceeding Expectations:

ESOP ~ **43%** ~ 268 Acquisitions

Non-ESOP ~ **23%** ~ 525 Acquisitions

LEADERSHIP THEORIES



ESOP LEADERSHIP THEORIES

SERVANT LEADERSHIP

TRANSFORMATIONAL LEADERSHIP

COLLECTIVE ACTION



MANAGERIAL IMPLICATIONS

“A successful team is
a group of
many hands
but of
one mind”

Bill Bethel



PHASE 1 ~ ACQUIRING COMPANIES

!!! AMAZING DISCOVERIES 97.5 % SUCCESS RATE !!!

All extensively planned prior to the acquisition

Carefully selected target companies with the same
goals & objectives

All viewed the target company employees as assets
Strategized as to how to locate employment for them

Provided extraordinary efforts during the Cultural Integration ~

During recession all employees agreed to hours & pay cuts

PHASE 1 ~ TARGET COMPANIES

!!! AMAZING DISCOVERIES !!!

ESOP was a HUGE factor – welfare of employees

Acquiring Company was on the Judgment Seat

Maxed out Prior to Acquisition

Open Book Mgmt. / Open Door Communication – better culture

Inclusion in Teams & Communications Committee

PHASE 2

Non-ESOP Acquisitions have mixed results & at best
have a 50% success rate

ESOPs have huge success rates with acquisitions

Having a shared vision between the 2 companies
was the most important factor for implementing an
empowered organization

ESOP CULTURAL INTEGRATION PRACTICES !!! EXTRAORDINARY EFFORTS !!!

Power Point ESOP Presentations

One on One Meetings

Hot Lines Installed

Dedicated Contacts

ESOP CULTURAL INTEGRATION PRACTICES

!!! EXTRAORDINARY EFFORTS !!!

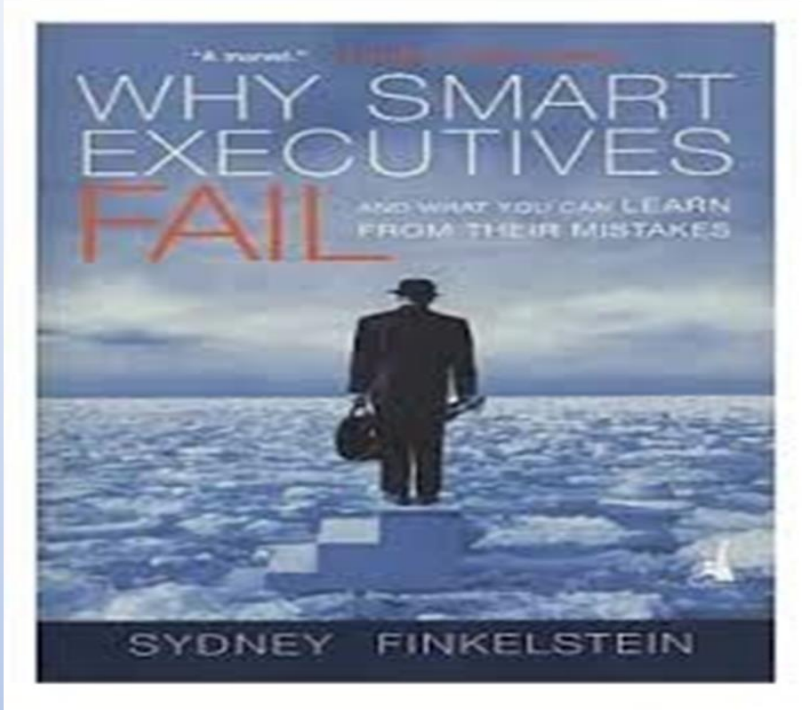
Working Side by Side ~ Exchanging Positions

Including TC Employees on Committees & Corporate Events

TC Management Retained

Educating TC Executives on New ESOP Culture

??? UNSUCCESSFUL ACQUISITIONS ???



UNSUCCESSFUL ACQUISITIONS

Target Co. was Strictly an Emotional Purchase by the CEO

Key Target Employee Resigned & Swayed Customer Base

Target Owner Unwilling to Change

Vibes During Negotiations & Target Co. being Untruthful

UNSUCCESSFUL ACQUISITIONS

Attempt to Diversify without Proper Research

**Acquiring Co. Refused to Permit Target Co.
Employees to join ESOP for 2 yrs. - were not
performing like Employee Owners**

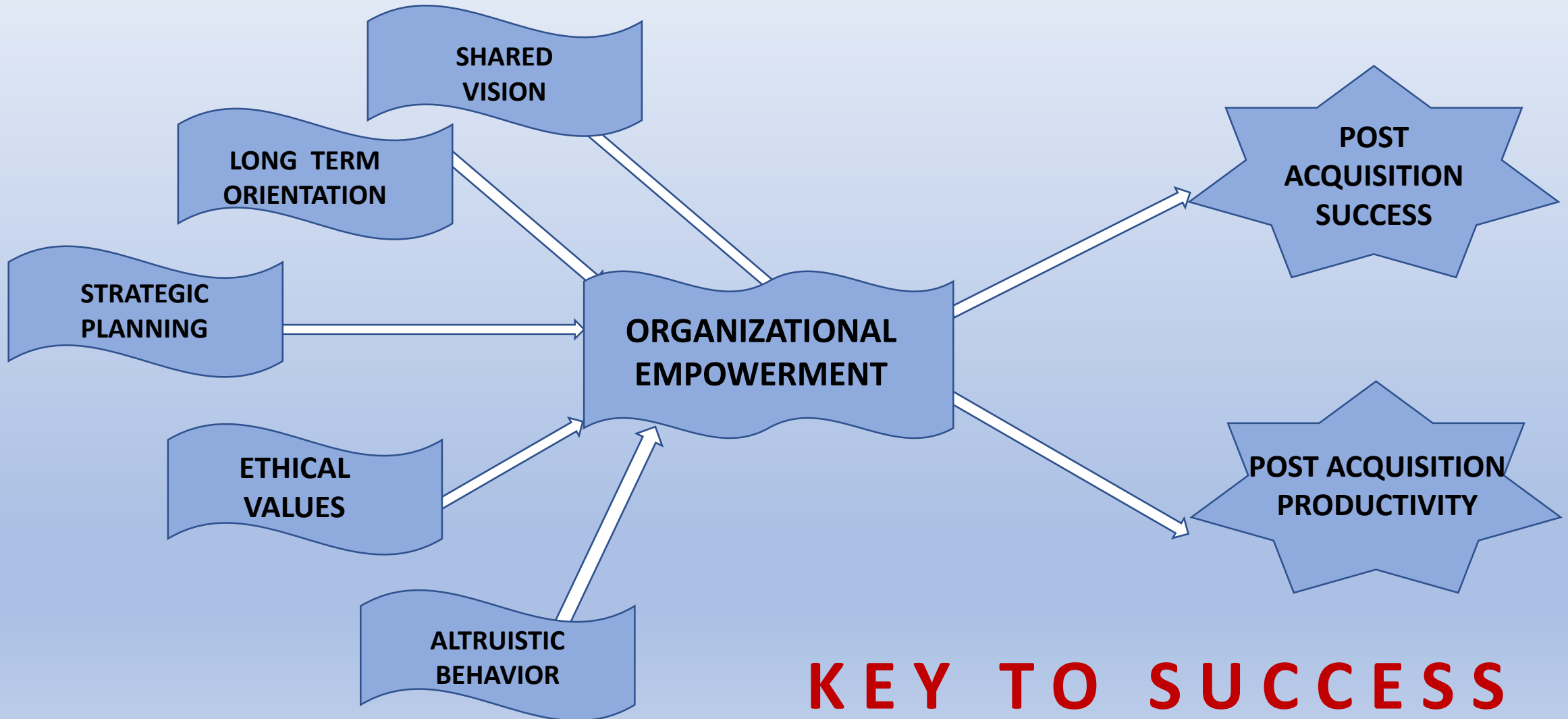
**Target Co. did not have Proper Infrastructure in
Place**

(OB)
ORGANIZATIONAL
BEHAVIOR



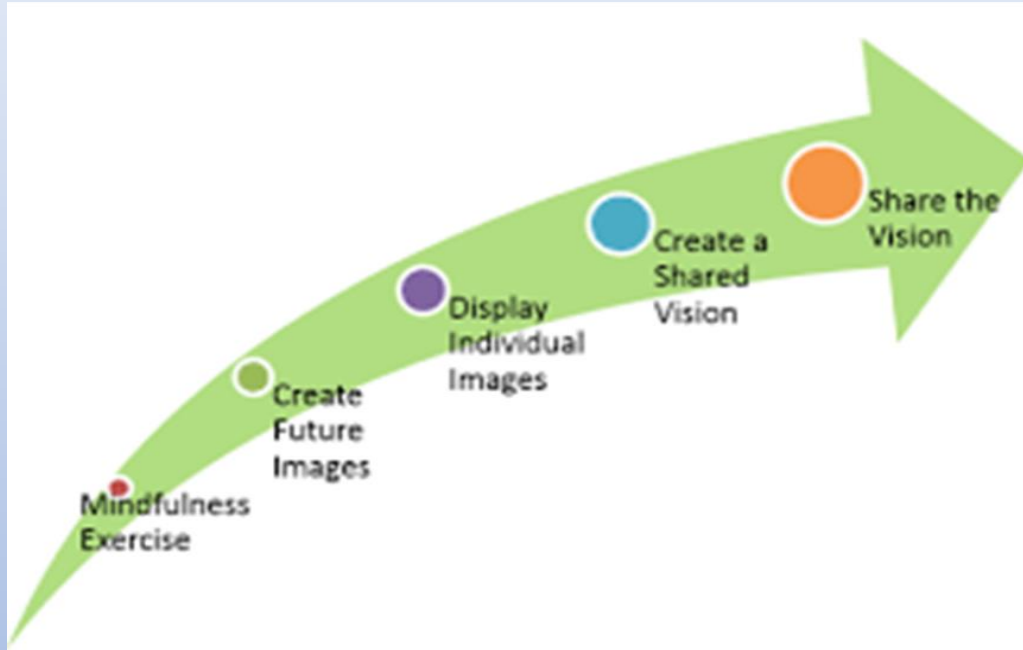
THEORETICAL MODEL

ORGANIZATIONAL BEHAVIORS



SHARED VISION

Members sharing a common mental image of a desirable future state



STRATEGIC PLANNING

Cognitive effort expended in processing a decision



ETHICAL VALUES

Belief in practicing business with high integrity

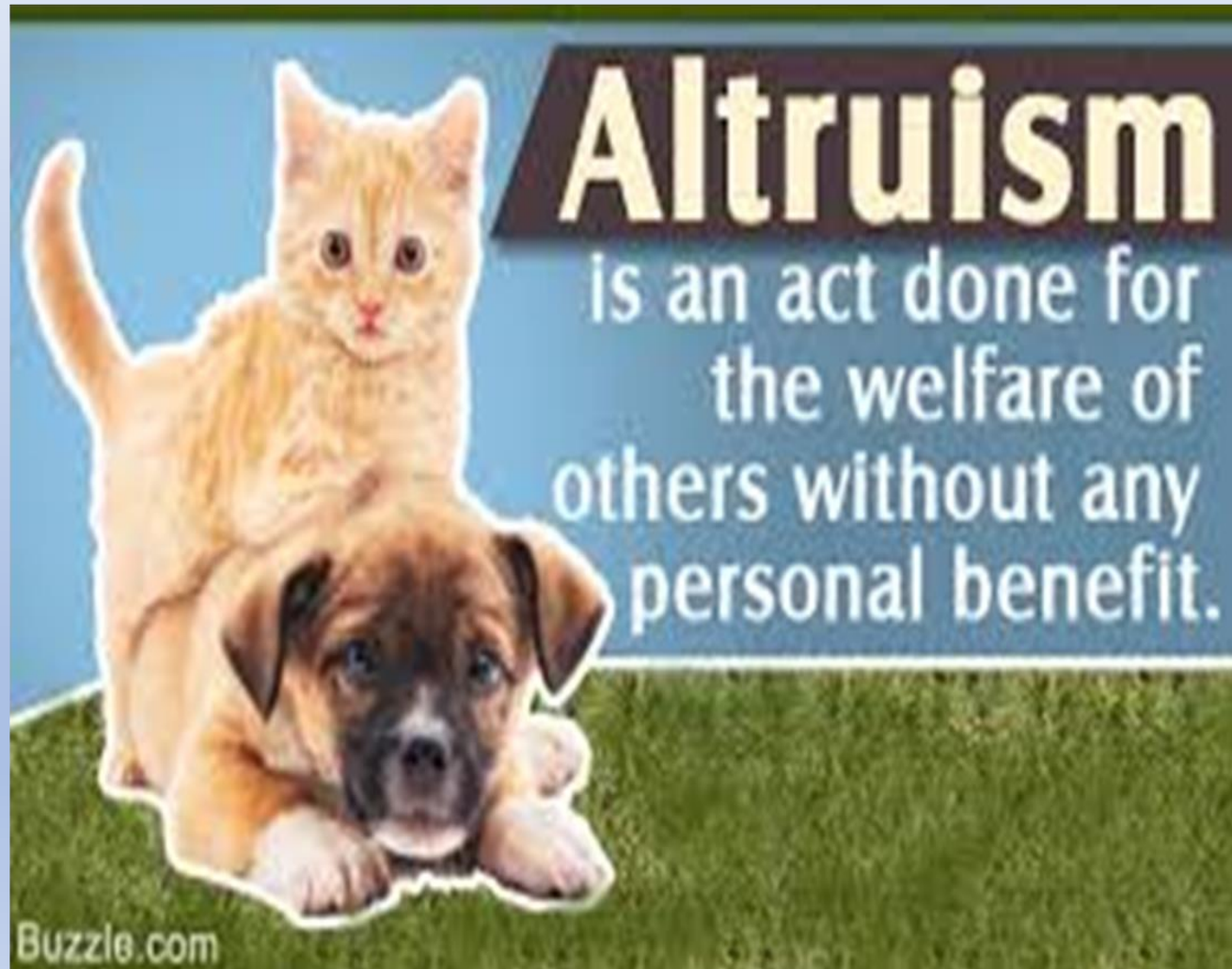


Examples of ethical values

- Honesty.
- Promise-keeping.
- Fairness.
- Compassion.
- Respect for others' privacy.

ALTRUISTIC BEHAVIOR

Giving priority to the welfare of a group as opposed to self-interest



LONG TERM ORIENTATION

Emphasize working towards a better future as opposed to focusing on the present

**THE SINGLE
GREATEST EDGE
AN INVESTOR
CAN HAVE IS
A LONG TERM ORIENTATION**

-SETH KLARMAN



ORGANIZATIONAL EMPOWERMENT

Perception of how to develop a framework for organizational empowerment



??? HOW DOES THIS ESOP RESEARCH
BENEFIT THE WORLD ???



WHAT'S HAPPENING IN THE REAL WORLD?

Presented at the Following Conferences:

**The Academy of Management's Annual Conference in Vancouver, BC
August 2015**

**Ohio Employee Ownership Center's Annual Conference in Akron, OH
April 2016 & 2017**

**Annual Conference for the Ohio/Kentucky Chapter of The ESOP
Association at Powell, OH March 2016**

**Annual Conference for The Carolina's Chapter of The ESOP Association
at the NASCAR Hall of Fame in Charlotte, NC August 2015**

**The Mid-Year Fellows Workshop in Honor of Louis Kelso at Rutgers
University January 2015 & 2017**

Illinois Chapter Annual Conference Key Note Presentation – March 2017

WHAT'S HAPPENING IN THE ESOP PRACTITIONER WORLD?

Research Articles:

New Study Finds Acquisitions by ESOP Companies Highly Successful. The Employee Ownership Report – March-April 2015
Volume XXXV, No. 2

How Well Do ESOP Acquisitions of Non-ESOP Companies Work?
Guest Commentary, The National Center for Employee
Ownership, February 5th, 2016 nceo.org.

New Study Finds ESOP Acquisitions Highly Successful. Blue Ridge
ESOP Associates Newsletter – February 2017

THE OHIO EMPLOYEE OWNERSHIP CENTER ANNUAL CONFERENCE APRIL 2016 & 2017

Exhibitor Booth for Research Participants



**ANNUAL CONFERENCE
OHIO/KENTUCKY CHAPTER**

**The ESOP Association
Powell, Ohio March 2016**



**THE OHIO EMPLOYEE
OWNERSHIP CENTER
ANNUAL CONFERENCE**

**APRIL 2016 & 2017
Acquisition Break-Out Session
Standing room only during session**



!!! THANK YOU !!!



Corey Rosen

2013 - Accepted telephone call from an unknown Ph.D. student at Case Western Reserve University

Wishing to research Employee Ownership

Presented the Acquisition Topic

Years later....here we are!

This research would not have come into fruition without his guidance & direction!

A HUGE & GRATEFUL THANK YOU IS WELL DESERVED!

GREAT QUOTES

If opportunity
doesn't knock,
build a door.

**THE
ONLY
THING WORSE**

THAN BEING BLIND
IS HAVING SIGHT
AND NO VISION


CREATIVITY IS INVENTING,
EXPERIMENTING,
GROWING,
TAKING RISKS,
BREAKING RULES,
MAKING MISTAKES,
AND HAVING FUN.
More Like Cook

"IT'S NOT HOW
OTHERS MAKE US FEEL
THAT IS IMPORTANT
IN LIFE. BUT RATHER
HOW WE MAKE
OTHERS FEEL."


Great minds discuss ideas; average
minds discuss events; small
minds discuss people.
Eleanor Roosevelt
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**Don't
Quit
Your
Day
Dream**



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