THE BUFFALO NEWS

PRINT THIS

Click to Print

SAVE THIS | EMAIL THIS | Close

Printing Prep manager and part-owner Scott Polley examines the printed mini-blinds that the Buffalo digital printing and graphics company makes.
Sharon Cantillon/Buffalo News

03/08/09 07:07 AM

Turning employees into business owners

Printing Prepworkers step inas founder retires

By Matt Glynn NEWS BUSINESS REPORTER

For four decades, Hal Leader owned and ran Printing Prep, steering it through one industry change after another.

Even in retirement, the founder remains ebullient about the digital printing and graphic company's latest innovations, like images applied to a set of blinds or a tablecloth.

When he was preparing to retire, Leader wanted to ensure the Buffalo company would survive without him. The question was, who would buy it?

The answer, it turned out, was all around him. He decided to sell Printing Prep to his company's 30 employees, through an Employee Stock Ownership Plan, or ESOP.

"It's the way it should be, quite honestly," said Leader, who is 69.

Under an ESOP structure like Printing Prep adopted, employees buy shares of stock in the company from the owner. Many of the employees buy the shares with bank loans, which then must be paid back. An outside expert annually evaluates the value of the shares. Employees who leave or retire sell back their shares to the company for redistribution.

Since the company's performance affects the shares' value, the employees have a stake in those results. Ideally, the ownership strategy also removes the uncertainty that can occur when a business is sold to an outside interest.

Some other Buffalo Niagara companies are fully owned by ESOPs or are in the midst of the process. Nationwide, companies wholly owned by ESOPs remain a small percentage of all businesses.

Leader's question about what to do with his business when he retired is a familiar one to many entrepreneurs. Family succession is often one path. Leader's son, Eric, works at Printing Prep but was not interested in taking over the business. Leader then sought his input on whether to sell it to another company or go the ESOP route. His son favored the ESOP idea, as Leader hoped he would.

Leader proudly points out that about half his work force has been with him for 20 years or more. And while the ESOP gives those employees a share of the ownership, the business still needed the right person at the top, Leader said.

Enter William Paulot, whom Leader chose to be Printing Prep's president and chief executive officer. He brought with him experience at companies like Duracell and Greatbatch Inc.

Paulot said the transition to an ESOP offers some advantages to Printing Prep, 12 E. Tupper St. Employees look at their work place with a new perspective. New ideas for products and reducing expenses start to flow. The employees recognize that if the value of the company's stock rises, they will benefit.

"The thought process is, the employees will try to do everything they can to help the company," Paulot said.

That is not to say an ESOP leaves a CEO with no role to play. Paulot talks about the importance of maintaining personal connections with customers, maximizing technology, and embracing "green" business practices that many clients demand.

What about running a company where the employees are also owners? Paulot describes himself as a motivator, setting the direction for the business and giving the employees the latitude to make decisions, within boundaries.

“You have to energize people to do more than they think they’re capable of,” he said.

One employee hatched the idea of printing images to jazz up elevator cars. Printing Prep’s own elevator is a working example, adorned with an underseas theme, complete with a turtle overhead. The company has devoted a brochure to the application.

The company is continuing to develop new product ideas and encouraging employee creativity amid tough economic times. It is an approach that Leader endorses.

“In times like these, you can’t be scared,” Leader said. “You have to do what they’re doing, pushing forward.”

Paulot said the company’s technology investments allow it compete for some tasks that others can’t do. Printing Prep a few years ago added a division called Leader All Surface Printing and now markets all of the company’s services under the PrintLeader banner.

Paulot is also looking at long-range plans to invest in new equipment, and expects to add more jobs.

As the ESOP unfolds, he said, it can help retain employees at Printing Prep, as they work to realize the full value of their shares, Paulot said. The loans for the acquisition of Printing Prep will be paid off in 10 years.

Nationally, the National Center for Employee Ownership estimates at least 11,400 companies had ESOPs and equivalent plans last year. It estimated 13.7 million participants in those plans in 2006, the center’s most recent year for estimating participation.

Kenneth Kim, associate professor of finance and managerial economics at the University at Buffalo’s School of Management, said ESOPs not only give the employees an ownership stake, they eliminate the separation between employees and shareholders.

“Sometimes employees that work for shareholders act primarily in their own personal interests, not the shareholders,’ ” he said. That so-called “agency problem” disappears under an ESOP-only format, he added.

ESOP-only owned companies come with their risks, as well. Kim notes that some believe that outside shareholders are pretty effective monitors of firms, since they are objective. “Insiders sometimes have biased views,” he said.

And sometimes what makes for a great owner and a great shareholder can be two different things, Kim said.

With any ESOP, there is no guarantee that the value of the employees’ stock shares will rise over time, Paulot said. But employees have some influence, since the results of their work can lead to higher share values.

Paulot suggests any company considering the ESOP route reach out to legal and accounting experts and to join the NCEO, to navigate the process and grasp the tax advantages.

ESOPs have taken root at a number of other area companies. Gear Motions, the Syracuse- based parent of Oliver Gear in Buffalo, is en route to becoming a 100 percent employee- owned company. The plan covers Oliver, as well as a sister company in Syracuse, Nixon Gear.

The initial phase started in late 2005, when one-third of Gear Motions’ stock was transferred to the ESOP. The next phase is scheduled for 2010, said Michael Barron, Oliver’s vice president and general manager.

“It’s going to be a good plan, especially for the younger guys,” Barron said. The plant has about 25 employees.

Oliver, which was incorporated in 1907, recorded record sales and profits in 2008 and met its target for its first quarter this year, he said.

And the value of Gear Motions' privately held stock has kept climbing, based on valuations conducted by an outside accreditation firm, he said.

Barron recalled that when the plan was introduced, Oliver employees had lots of questions, since the concept was new to them. The plan has grown into a more familiar feature of their employer.

"Now they recognize this as another way of doing business that will someday be a benefit," Barron said. And the ESOP has not affected the day-to-day operation of the business, he said.

At Printing Prep, Leader's decision to sell the company to the employees meant giving up control of an enterprise he had nurtured since 1968.

That might seem difficult for a founder to do. But Leader said he was relieved to find a solution that kept the company intact. Had it been sold to an outside interest, he said, it could have been moved elsewhere.

"All of my family might not be together," he said of his employees. "This is my second family."

mglynn@buffnews.com