MAKING MONEY—AND HISTORY—AT WEIRTON

AFTER ONE YEAR, THE FIRST 100% EMPLOYEE-OWNED STEEL COMPANY HAS NEW CUSTOMERS AND HIGHER PRODUCTIVITY

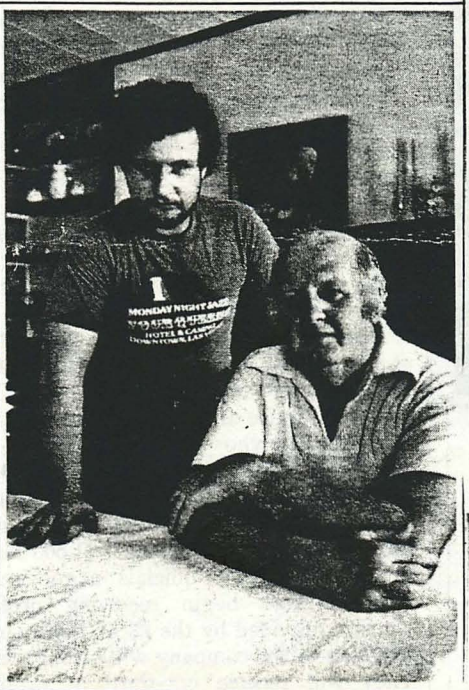
There is more than a touch of boosterism today in the billboard message at the edge of Weirton, W. Va., that proclaims the town the home of "America's Steel Mill." But Weirton Steel Corp.—the nation's largest 100% employee-owned company—could well become the stuff of American legend if the performance of its first nine months continues.

As it held its first annual meeting on Nov. 1, Weirton was picking up customers and earning higher operating profits per ton—$41—than any of the nation's six largest steel companies. This vitality has resurrected the town of Weirton, which only two years ago seemed destined to suffer the economic devastation of other steel areas such as Youngstown (Ohio), South Chicago, and Pennsylvania's Monongahela Valley.

While Weirton Steel is still subject to import competition and the ups and downs of steel demand, the terms of its divorce last year from National Steel Corp. have given it a running start toward survival. Its employee stock ownership plan (ESOP), fashioned by Lazard Frères & Co., resulted in a 20% cut in wages and benefits plus a six-year wage freeze, left National holding the bag for about $85 million in unfunded pension liabilities, and gave Weirton generous loan terms. The company's new chairman, Robert L. Loughhead, has since raised productivity with use of employee participation teams. And he has increased Weirton's penetration of its traditional tin and sheet steel markets by creating a new in-house sales force.

UNCERTAINTIES. As a result, Weirton posted earnings of $48.3 million on sales of $845.5 million in the first nine months of this year, while many steelmakers were losing money. Says Loughhead: "Things are better than expected on the financial, commercial, and people side of our business."

Long-term, Weirton still faces some big uncertainties. One is that its $161 million in long-term debt is supported by less than $50 million in equity. The equity figure will rise only if the company stays profitable. Another element of uncertainty is what workers will do when they gain control of the company. The ESOP trust now holds 6.5 million shares, and when they are distributed, probably by 1989, union members will control 80% of the stock. This will give them the power to decide who will run Weirton and what its policies will be. But no one knows what they will do. If profits rise, for example, there almost certainly will be increasing tension over maintaining the wage freeze, although Weirton's Independent Steelworkers Union leaders contend that a profit-sharing plan is likely to ease this tension.



A 35-year veteran, Andrew Cunningham Sr. says survival is worth the sacrifices, but for Andrew Jr., 'it's still too much of the same regime'

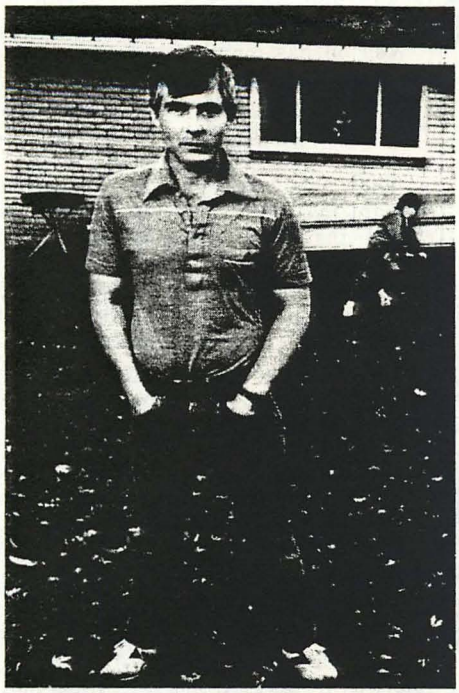
Whatever happens, Eugene J. Keilin. a Lazard Frères partner, Weirton director, and the architect of the ESOP plan, says that "this is not industrial democracy, it's worker capitalism." He adds: "Just like any other company, stockholders do not make day-to-day decisions." Indeed, the requirement that Weirton's board be controlled by eight outside directors until 1989 was a key factor in getting banks to lend to the company.

Weirton has made considerable progress since Mar. 2, 1982, when National's chairman, Howard M. Love, said it was "not economically feasible to commit . . . large amounts of capital at Weirton." A joint union-management committee brought in McKinsey & Co., which concluded that "an independent Weirton could be successful"—but only with deep wage cuts and a better product mix. The plan workers approved in September, 1983, cut wage-and-benefit costs to $19.70 an hour currently, compared with about $23 at large producers organized by the United Steelworkers.

A critical decision for Weirton was the choice of Loughhead, then president of Copperweld Steel Co. Loughhead, 55, says he accepted the job primarily because "a large employee-owned company was the perfect environment to prove that employee participation could work." The labor relations he found upon arrival at Weirton in August, 1983, were "god-awful," says Irving Bluestone, another company director and a retired United Auto Workers vice-president, now professor of labor studies at Wayne State University. "There was a very deep bitterness on the shop floor." ISU official Emil Morelli says the mill was run with a "hard-nosed attitude" of "I'm the foreman, and you do what I want."

To break down these walls, Loughhead has set up perhaps the most open communications system in the steel industry. Top union officials are intimately involved in key decisions: ISU President Walter Bish and two other union representatives serve on the board. Once a month, Loughhead and key managers meet separately with union leaders and a group representing nonunion salaried workers to discuss Weirton's performance. Moreover, each week Loughhead spends an afternoon fielding questions from small groups of workers on the shop floor. "Loughhead wants to know what the employees' ideas are and what's bothering them," says Morelli. "That was never the case [before] at Weirton." Adds John H. Kirkwood, the former labor relations vice-president of Jones & Laughlin Steel Corp. who is helping Loughhead install the participation programs: "There's more upward communications going on in this company than any steel company I've seen."

PUSHING PARTICIPATION. Weirton also keeps workers up to date by putting out frank videotaped messages and articles in the company newspaper. Recent issues of the plant paper aired the criticisms of an unhappy customer, explained that a breakdown on the continuous caster had forced the company to import foreign steel slabs, and printed unedited employee comments, in-



Under employee ownership, 'you take a little more pride in your work'

MATTHEW MOROZ
Weirton construction worker

cluding this question from a security guard: "I would like to know why we can't find out how much the salaried people are making."

To encourage more employee involvement, Loughhead is pushing the creation of "employee participation groups" in which workers can make suggestions and voice complaints. Though there are currently only 22 of these, involving about 200 workers, the spirit of the groups is spreading throughout the mill. In one case, employees not in such a group made suggestions about ways to reduce surface blemishes on tin mill products, thus reducing the rejection rate during quality inspections. And a participation group in the blast furnace department made suggestions that halved monthly costs for one maintenance procedure to $13,000.

"You can definitely feel the tide turning [to improved labor-management relations]," says Edward Conley, another ISU official. "Employees are now more interested in their work." Indeed, Weirton is already exceeding the productivity goal set by McKinsey of 250 tons of steel each year per employee.

But there is still considerable friction between workers and some supervisors—many of them holdovers from National. Loughhead and his staff are "reorienting" supervisors to convince them that "adversary battles aren't the way to go," as Kirkwood puts it. And a consultant has been hired to train managers in participatory techniques.

Until this produces results, workers will have mixed reactions toward the new management. Matthew Moroz, a construction worker in the mill, says, "You take a little more pride in your work." Andrew Cunningham, 53, thinks survival of the plant where he has worked for 35 years is worth the sacrifices. "We're going to leave the mill to our kids. I thought that was good for our future," he says. But Andrew Cunningham Jr., his son and a Weirton instrument repairman for 12 years, complains "it's still too much of the same regime." He adds: "If I was running this place, it'd be a whole lot different."

Moreover, many workers are still struggling to adjust to the wage cuts. "It's tough," says Steve Ivady, a 35-year-old service and maintenance department clerk who expects his pay to plunge to $22,000 this year from $29,000 in 1983. Ivady canceled summer vacation trips and scrapped plans to buy a car, but he still had to take out a $1,500 loan to meet bills. ISU officials argue that once workers begin receiving profit-sharing provided by the ESOP, their commitment to the company will strengthen. They will receive one-third of profits when Weirton reaches $100 million in equity—probably by 1986—and 50% of profits once equity exceeds $250 million.

NEW SPIRIT. While mending his labor-relations problems, Loughhead has also been improving Weirton's marketing. Demand for tin—used primarily to make food and beverage cans—has been losing ground to substitute materials. And Weirton historically has been a minor player in the sheet market, limited by its inability to roll sheet wider than 48 in. and by its location far from key markets. McKinsey estimated that Weirton might ship only 1.6 million to 1.8 million total tons in an average year.

But Loughhead quickly recruited a sales force—previously the mill used National's. And in tin he is building on Weirton's reputation as a quality producer by stressing service. His goal: at least 25% of the declining market, up from 20% in recent years. In sheet, Weirton is pursuing a niche strategy. The result: It has added 190 new customers and should ship 2.1 million tons of steel this year, or 84% of its capacity. Many long-standing customers echo Ira E. Murphy, purchasing manager for the Stanley Strapping Systems Div. of Stanley Works, who says: "We find a whole new spirit down there. The quality has remained good, and on price they are very competitive." Weirton's $41-a-ton operating profit compares with only break-even results for the Big Six producers, and Loughhead is aiming ultimately to boost his pretax return on sales to 10% from 5.7% so far this year.

To reach these goals, Weirton has launched a massive capital spending program. Neglect under National is especially evident in the raw steelmaking end of the mill. When the workers took over, the coke oven batteries were shut down, the blast furnaces were nearly worn out, and Weirton could continuously cast only about half its raw steel. To correct these problems, Loughhead hopes to spend $600 million to $700 million over the next decade. One goal is to build a second continuous caster to enable Weirton to cast all its steel, which will improve quality and cut costs.

The company's success has revived the West Virginia city of 26,000. Without it, says a local leader, 'this place would be a ghost town'

Loughhead will also need to bolster Weirton's highly leveraged balance sheet. If the steel industry were hit with a major recession next year, "it would be very, very difficult" for Weirton to manage, he concedes. The company does have some breathing room, however. It does not have to pay principal or interest on $90 million of its long-term debt until its equity reaches $100 million. The annual carrying cost of the remaining $71 million in long-term debt is under $10 million. Weirton is using only about 33% of its $120 million revolving credit line. And under federal laws governing ESOPs, says Keilin, Weirton will pay "little if any taxes for the first five years."

The company's success has "re-instilled public confidence" in its hometown of 26,000, says Harry L. Scammell, executive vice-president of First National Bank of Weirton. Loan demand plunged and retail sales fell in Weirton after National's 1982 announcement. But since January, loan demand at the bank is up 15%, and several new businesses have opened. Without the ESOP, "this place would be a ghost town," adds Joseph Mayernick, executive director of the local Chamber of Commerce. Perhaps as important, Weirton Steel may prove that employee ownership combined with worker participation can succeed. Says Loughhead: "Employee participation has got to be the wave of the future in manufacturing." ▣