Windings Inc.

Minnesota-based custom manufacturer Windings structured its ESOP to create a gradual change in ownership, which also paved the way for another transition at the company—from CEO Roger Ryberg at the helm to his successor, Jerry Kauffman.

Founded in 1965, Windings makes components for electric motors and generators, often in the form of custom-built prototypes or low-run high-quality products for research and development. In 1983, Roger Ryberg took a mortgage on his house to purchase the company, and he remained the CEO until 2008. Thinking of his future retirement, Ryberg put an ESOP in place in 1998 to handle the company’s equity transition. The ESOP began with 17% of shares, which increased in tranches until the company became 100% ESOP owned in 2008.

The Management Transition

In 2000, long before his retirement, Ryberg began planning a management transition. He recruited Jerry Kauffman, who was working at a larger company. “When I was looking for a successor, I wanted to find someone with character, integrity, and a certain way of interacting with people,” says Ryberg. “I also wanted to take at least five years to see how he fit at Windings. I made sure Jerry knew I was committed to the ESOP. I gave him challenges and then just got out of the way to see how he would handle them.”

Kauffman joined Windings partly because he wanted to work for a smaller company, and having an equity stake was important to him. “The basic values that Roger and Windings exemplified were the most important reason I decided to join the company,” he says. Those values are evident in the way Kauffman describes his goals as CEO. “I can give someone the opportunity to have satisfaction in their job by tapping into their intrinsic motivation to do something good in the world.”

In his retirement, Ryberg is sometimes gone for months at a time, but he maintains a presence at Windings. He admits that it has been a challenge for him to see the company making decisions that are different than he would have, but, he says, “I don’t want to be one of those old bulls that endanger some companies.” So Ryberg has found new roles for himself. He walks the plant floor, talking with employees. He asks questions to guide their thinking when they bring a concern to him, but he stays out of making any decisions or commitments. “If I have any observations or concerns, I take them to Jerry alone,” he says.

The board at Windings helped smooth the leadership transition. Ryberg is the board chair, and Kauffman is a director, but the other three directors are outsiders, all of whom are or have been CEOs of other companies. According to the company’s bylaws, every year each director needs the consent of three other directors to remain on the board. The board used this provision to shift from majority insiders to majority outsiders in connection with the CEO transition.

Economic Value Added

The company uses economic value added (EVA) as a decision criteria, communications tool, and educational device. Kauffman proposed the idea, and the company adopted it in 2005. At Windings, a project’s EVA is essentially accrued profit minus a charge to “rent” the capital used for that project. In other words, two equally profitable projects will have different EVAs if one makes a lesser demand on the plant, equipment, or overhead. Kauffman says, “Nothing comes close to EVA in helping people connect the dots between what they do and the value of the company. We can run the EVA on any project, any time.”

Windings calculates companywide EVA monthly, and managers use it in all discussions about the direction of the business. The company practices open-book management, posts EVA monthly, and discusses it in monthly and quarterly meetings. Employees track the numbers closely because their bonuses are calculated as a percentage of EVA.

EVA is a motivator, but Kauffman also goes out of his way to nurture the talents of the workforce. He tells the story of a woman who came into his office because “she did not feel she was welcome to use her gifts at work. I worked with her one-on-one to develop some improvement suggestions, and she ended up finding a way for us to replace cotton swabs that cost $1.19 with ordinary Q-tips from the local drugstore. They cost $0.03 each. She not only saved money for all of us; she knows she made a difference, and her engagement is at a new level.”

To Kauffman, employee ownership is dramatically different from conventional ownership. “Profit is shared by all of us, instead of just helping a guy with a Lexus put another one in the garage.” From his perspective, Ryberg knows he could have more money from the sale of the company if he had not sold to an ESOP, but, he says, “Other objectives were more important to me. I know that people with bigger pots of money aren’t necessarily as fulfilled as I am.”

To see an example of the way Windings uses EVA, see the case study resources area in the members-only area of the NCEO Web site.