Sharing the company's value with its workers

OPINION

By Ideas and Voices staff

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Rob Connelly
President & CEO, Henny Penny

HENNY PENNY

A year and a half ago, the Eaton company Henny Penny made big local-business news by announcing it was moving from family to employee ownership — a relatively unusual move that put the value of the enterprise in the hands of the people who do the work. That work is building high-pressure fryers for the worldwide fast-food and restaurant industry. Curious to learn how this new way of doing business was working out, we recently visited the company's 65-acre campus in Preble County and talked with the president, Rob Connelly. This is an edited version of the conversation. — Ron Rollins

Q: To start off, explain what an ESOP is, and why it was something you thought was a good idea to pursue for your company.

Connelly: ESOP stands for Employee Stock Ownership Plan. You could probably write a whole series on what an ESOP is. It's a fairly misunderstood thing — but it's fundamentally a qualified retirement plan. So, what actually happened is that our Chairman, Steve Cobb and his family, owned all the shares in the company, and a trust was created for the benefit of our employees that bought all the shares from Steve – so that the trust became the owner of Henny Penny. Then the trust allocates shares to employees over time. So in the first year of the ESOP and every year after, the employees get units of Henny Penny. It's an economic interest where you own shares in your own company, and those shares give you some value in the company and its future.

Q: So, everyone is kind of the boss?

Connelly: Well, you can't just walk in and tell the CEO what to do, but on the other hand as the company does well, you get a definite share in it.

Q: How does it work?

Connelly: Each year there is a pool of shares that will be allocated to all employees. The value in each employee's account increases as the company grows in value. So when you're ready to retire or leave the company, you have this value, just like your 401(k), that you get and you can roll into an IRA or cash. So basically it's like a retirement plan, administered by the trust. The better the company does, the better the employees do.

The trustee for the ESOP is an independent firm, Wilmington Trust, who also hires an evaluation company that determines the value of the company so that you can determine the value of the shares. The trustee also has a role in making sure the company is doing what it should to protect the employees.

Q: Does the arrangement affect the relationship people feel they have with the company?

Connelly: The cool thing is that your normal relationship with a company is voluntary, right? You go to work and you get paid. That's the agreement. You know you're getting paid, and that works out for you and the company, presumably. We have that too — but now over time, you are going to benefit even more if the company does well. Most hourly workers on a production line don't usually have a chance to share in the value of the company – usually, the only people who get that benefit are ownership or possibly the higher-level managers. We do it for everybody.

Q: How did this conversation get started?

Connelly: Steve Cobb and his family owned Henny Penny, and as he got older he was looking for an answer to the question of: What is the long-term vision for Henny Penny? He has a lot of himself involved and invested in the company and he really loves it, and what it did and does for employees and the community. He wondered, what comes after me? What happens after I'm gone? Like all of us, he had seen lots of different companies that had gone away or ceased to be what they were when they were sold. His question was, What is the most likely way we can continue this really great company and culture into the future in a way that protects it?

Q: When was this?

Connelly: The conversations started in 2013, and we thought it would take about five years to figure out what to do. The most likely scenario would have been a generational transfer to his kids; that's a fairly normal family business kind of thing. There were lots of options, really. We weren't interested in a strategic buyer – then you lose control, and oftentimes the new owner strips the company of its culture.

Q: Talk about the culture.

Connelly: We think what makes a difference at Henny Penny is that we try to have people first. I don't want to imply that we are perfect or that we're the only good company around — but we feel pride and feel special about the way we treat people and the benefits we enjoy by being privately held. We don't feel that stockholder pressure many companies do. We care about the numbers, but we're not doing what a lot of public companies have to do in the short term to show good numbers for a quarter. So your bias is different when you have a long view – you can really build value and relationships with suppliers, customers, the community. It's better for business. Publicly held is a different game – not bad, just different. Rugby vs. soccer. But we feel fortunate to have this long-view, privately held culture.

Q: Did you have a model you followed for the ESOP?

Connelly: We found some other companies in our industry that are ESOP. We met with them, and found there are lots of different variations. In doing our research, we met an individual who is one of the top ESOP investment bankers in country, based in Louisville. He was great. We met with him in March, and by the end of year we had closed on deal. His expertise was invaluable. Our main reluctance was, This seems too good to be true – why isn't everyone doing this?

Q: So, why aren't they?

Connelly: It's not for everyone. You have to be a company with consistent earnings, little or no debt, a strong culture, the long view … we were a perfect candidate for an ESOP. It made exact sense for us, so we did it.

Q: How's it turning out?

Connelly: We're still learning, but we're still excited about it, and our employees seem to be, too. We've got great people, and a lot of loyalty – I think a lot of folks were excited and happy at first because we said they should be, that this was a good thing. But mostly, their reaction was, What is this? From what other ESOP companies told us, typically the first couple years you have management pumping it up as good – but then after a few years of getting shares and seeing how it works, people really start to get it. They're saying, Oh, this is good – now how do we continue to get the share price to go up?

Q: which is what you want, right? Everyone pitching in and pulling together for that. It's not so much that somebody is working for the man – now, they are the man.

Connelly: Exactly. We don't want to be too bullish, but this will be a really significant thing for our employees, and better than what they had before. Really, people here were already invested and engaged in how well the company was doing, but this is an extra – and makes it more special. Now, we're still in the first few years of it, so not that much has changed day to day – but I think as people start to see their share prices go up, it will start to gel. And this month, we'll have another announcement of share price. I do think people realize that if there'd been a change in ownership, if another company had bought us, there would have been a lot of changes.

Q: What's the quick history of the company?

Connelly: It started in 1957. Chester Wagner and his wife, Mary, had the Whispering Oak, a restaurant in Eaton that was known for its fried chicken. He was a tinkerer who was always trying to make things better – how can you make more, better fried chicken – and he invented the world's first commercial pressure fryer. It cooked faster and better, and the chicken was very moist and juicy. He sold the fryers to restaurants, grocery stores — fast forward over time, and Jack Cobb was one of his early handful of employees. When Chester died, Jack and the sales manager bought out his widow and son, and then Jack bought the entire business. It grew in the 1980s and '90s, partnering with Chick-fil-A, Wendy's and KFC when they were growing. In fact, the Colonel had his own method for cooking, but we had the “four-head” fryer, which could cook four chickens in 12 minutes, and we ended up growing around the world with KFC.

So today we have 130 distributors around the world, selling in over 100 countries. About half our business is international. Two years ago we bought Wood Stone, a company in Bellingham, Wash., that makes the hearthstone ovens you’ll see in places like California Pizza Kitchen, Brio/Bravo, any of those places. It was our first major expansion, and it’s been great. The ESOP extends to them, even though we run them as a separate company.

Anyway, we’re in McDonald’s, Wendy’s, KFC and Chick-fil-A, those are the big ones. Also Chili’s, Arby’s, Del Taco, a regional chain. And many other regional chains and grocery stores.

Q: So, even two competitors like McDonald’s and Wendy’s are both using your equipment – that’s a good position to be in.

Connelly: If we were in the automobile business, we’d be the guys who make buses – we don’t make cars. If you want a car, we’re way too much for you. We’re engineered for high-volume. We focus on high volume, consistency and places where their food is really important to them. Our equipment is really reliable, durable and lasts a long time. It’s a work horse.

Q: How did you break the news of the ESOP to the employees?

Connelly: Jan. 8, 2015 — that was a great day. We had to keep it a surprise, and couldn’t announce it until the technical aspects of the deal were done. There was a lot of speculation about what the big announcement was – lots of different rumors: We had a new product, a big new customer, we’d bought a new company. Some folks even thought we were going to be on “Undercover Boss.” So we bused all 600 employees over to the Eaton High School auditorium – and of course there was a big snowstorm that closed school, but we still used it. Our plan was to tell everyone at 2 p.m., then have a community open house and release to the press at 5:30 – but your reporters found out and we had to announce sooner.

Q: Sorry about that.

Connelly: It was fine. It was a really cool day, though. We were really excited …

Q: How technical did you get on the details of the thing?

Connelly: We spent weeks trying to figure out, How do you convey this so that everyone gets it and understands, but doesn’t get into an info-coma. We had to balance the right amount of information. We ended up asking ourselves, “So, what will they tell their husband or wife when they get home about it?” I think we did it. Then we met in small groups through the year with more information.

We provided everyone with a little booklet, and gave everyone a key, like a key to the company. We explained what it meant and what it didn’t mean – it didn’t mean you could now go into Steve’s office, spin his chair around and tell him what do to. But we had fun answering the questions in a creative way.

Q: On a different topic, talk about how volunteerism figures into your life and work. You've belonged to a lot of boards and organizations in the Dayton area – Cox Arboretum, Dayton History, the Dayton Art Institute, and now you're on the board at Sinclair Community College.

Connelly: Well, it's not just me – we have a lot of very generous people in the company who are very involved in the community. I fundamentally believe it starts at work. I would want you to be a really happy, challenged, engaged employee – that's really important – and that for you to be that person, that we would respect and support you outside Henny Penny as well, support your life outside the company. I mean, gosh – we live in the community, we are the community, and we should do what we can to support and engage the community. We're better if we're taking care of ourselves, and we do what we can. We don't blow our horn like we're great do-gooders, but I believe in it and we support community work. To me, it makes sense, and it's how it should be. I've asked in the last few years how we can even be more intentional about it.

Q: Any parting thoughts?

Connelly: First, this was a really cool thing Steve did. There's nothing inherently wrong with selling a company and walking away, like most people would do. But he tried to create the biggest opportunity for the employees and the community to optimize what we had here. And it was an incredible thing. We've all seen instances where companies lost their soul, but he decided he wanted Henny Penny to be here generation after generation. It was a real gift he gave.

And finally, we're just really excited about the whole ESOP thing, and what it's going to mean to our people. You know, there are a lot of angry hourly workers out there in the world today, but here we have a lot of really happy, great people. And we feel so fortunate. When people come to work with us, they sort of say, "OK, this isn't real – when is this gonna change?" Like they can't quite believe it. Our culture, though, is that we don't hire jerks. There are plenty of cultures where they don't care if you're a jerk, as long as you deliver. We don't believe that. We think it's important that you play well with others. We value that, and we think we're better for it, and we'll keep it going. This is a very low ego place. We know how to get things done, and how to do things for people. But it's not a star place. If you ask our customers about that, they'll say, yes, that's Henny Penny. Anybody we touch, we want them to feel that was the best interaction they had, and we take pride in that.