New England UPDATE

South Mountain

Sharing the Reins, and Liking It

Ten years ago, South Mountain Company, John Abrams's design-build firm on Martha's Vineyard, didn't exactly need fixing. After a few years of doing good, if sometimes unprofitable, work (one friend of Abrams called the money-losing jobs "subsidized housing for the rich"), Abrams had learned how to run a viable business. He liked his work, did it well, and he was making money.

Nevertheless, Abrams at that point made a change some would consider radical: He switched from an S corporation wholly owned by himself to an employee-ownership structure, in which long-term employees could buy in and share the company's management and profits. At first this meant sharing ownership with two other people; then three, then four. Now, after 10 years of employee ownership, South Mountain has nine owners (including Abrams), and several more of the company's 20 employees are nearing the five years of tenure that will make them eligible to buy in.

Almost half of South Mountain Company's 20 employees have bought into the company and sit on the board of directors; the other employees can buy in after five years of employment, and share in profits in the meantime.

For many contractors, sharing the reins of the company they founded and nurtured — not to mention its profits — would seem distasteful. Yet Abrams has found the switch rewarding both personally and monetarily. Since switching to employee ownership, South Mountain has expanded its services, consolidated its reputation, and grown from a 10-employee company grossing around $1 million a year to a 20-employee company grossing around $3 million. The company turns a profit every year and has never laid anyone off. A move made primarily for ethical reasons has paid substantial bottom-line dividends.

"There's no way to know how we'd have done otherwise," Abrams says now. "But I sincerely doubt we'd have done anywhere near as well as we have. We just wouldn't have got the same commitment or quality of work from everyone."

Good business. Abrams is not alone in citing the benefits of employee ownership. Companies ranging from software startups to heavy industry have found that giving employees shares in both profits and management creates good results for everyone. For instance, the strategy turned General Motors' Fremont, Calif., facility from one of the auto industry's worst to one of its best. Companies in other industries have had similar results, and several large statistical studies have shown that employee ownership and management consistently raises productivity and profitability.

To Abrams, the reasons are simple but powerful. "Sharing ownership draws more fully on the intelligence and creativity that lie within the

South Mountain's strong reputation for quality design-build services has enabled it to draw $3 million a year in business almost solely from its home base of Martha's Vineyard, population 15,000.

employees. It's true that I now have to share control. But I look at it this way: I haven't so much lost control as spread it around, and thereby increased the total amount of control we have. I couldn't properly look after this whole company by myself; together, we can. And this way, I don't have to be right all the time. I can share tough decisions with others."

South Mountain's day-to-day management has a fairly traditional structure. As the company's president and manager, Abrams holds daily responsibilities similar to those held by the head of any design-build company: He looks after sales and much of the client contact, oversees the design work, keeps rough tabs on the company's jobs, and works on special projects to develop the company's future. Reporting to him are the company's three designers, an office manager, a person who rides herd on the computers and also does some design work, two people in the woodworking shop, two carpentry crews with foremen, and a two-person crew that does small jobs, punchlists, and maintenance. While most of these people or crews control how they execute their jobs, the person at the top of the chain, and the one running the company's business end day-to-day, is Abrams. Abrams retains this position, however, through the blessing of the other eight owner-employees, who, along with him, make up the company's board of directors, which holds the power to promote, demote, or fire him or any other employee. The board meets monthly to make decisions regarding employment, profit-sharing, the general type and number of future projects, and any big equipment purchases. They also decide on any unusual projects, major financial decisions, and whether and when to accept new owners. While only a majority vote is needed to make a decision, virtually all decisions are made by consensus.

The wait and the reward. You can't just hire on and buy in at South Mountain. You must first work for the company for five years (during which you share in profits) and intend to stay at least 10 more. You can then buy in for an amount that is just over $8,000 this year and increases about 8% a year. Ownership brings a vote on the board, an increased share of profits, and part of the company's equity. If an owner leaves employment for any reason (two have so far, one because it didn't work out, one to follow a spouse), the company buys out that person's shares.

This equity can add up nicely. The last person to leave sold her shares, which she bought 4 1/2 years previous for about $5,000, for over $40,000 — after enjoying a good salary and excellent benefits in the meantime.

Most of the owners, however, buy in not just for the investment, but for the more nebulous benefits of ownership as well. "Since buying in," says Peggy MacKenzie, "I feel a deep-seated interest in just about everything that happens around here." Another owner-employee, Pete Ives, cited both job security and "a pride in telling people I'm part-owner of such a well-honed company."

South Mountain obviously generates good work, a rare sense of purpose and involvement — and a fair amount of wealth. Does Abrams ever wonder how much of that wealth would have been his had he kept the company to himself?

"Not really," he says. "Because I don't think we would have prospered to the degree that we have. And my own financial situation has improved dramatically, even though I don't own the whole company. I'm paid a fine salary, have great benefits, and, like the other eight owners, have equity in a company that grows more valuable every year."

Low-Density Foam Begins to Stick in New England

After almost five years in the New England/ New York market, spray-applied low-density foam (LDF) insulations like Icynene have gone from a curiosity to a small but growing part of the total insulation market. LDF still has a long way to go to win a firm foothold in the overall U.S. market; in New England, however, it has won over many contractors. Their experience suggests how contractors can effectively balance LDF's strengths — an effective combination of air-sealing and insulation and the ability to insulate cramped, cluttered, inaccessible, or irregularly shaped areas — with its main weakness, which is an installed price roughly twice that of fiberglass batts or blown cellulose.

For many contractors, low-density foam has proven the insulation of choice for applications such as these, where tight or oddly shaped spaces or hard-to-reach spots make it difficult to install effective air barriers and batts.

LDFs are sprayed on in thin layers that expand roughly 60 to 120 times. The resulting foam stays flexible and fills virtually any voids it encounters; excess can be trimmed away with a saw or utility knife. Once installed, the foam sticks like glue — a trait that requires care in application, but which gives the material superb air-sealing capabilities.

Paul Eldrenkamp, president of Byggmeister, Inc., a Newton, Mass., remodeling company, says these characteristics make LDF his product of choice for about half his insulation needs. "Spaces with cavities and plumbing and wires and such," says Eldrenkamp, "can be very tough to insulate effectively with fiberglass, and virtually impossible to get an effective air barrier into. So we always use it in those spots. We also use it anytime we've opened up walls or ceilings near rim joists, because the foam penetrates all those seams and tight spots."

Carmella Smead, owner and president of C.A.S., Inc., a Pittsfield, Mass., insulation company, and an insulation contractor for 15 years, says she likes Icynene because "it stays where we put it." She uses it beneath floors, against stone or rubble foundations, behind kneewalls, and to seal difficult-to-reach eaves spaces, rim joists, or sills. Smead also uses LDF in attics, where she sprays it into eaves spaces and in a thin layer atop the ceiling to form a good seal, then adds blown-in cellulose.

"That's a solution that can give the best of both worlds," says Smead, by sealing everything quickly with the foam and then getting additional, inexpensive insulation with the cellulose.

Cost concerns, say Smead, Eldrenkamp, and others, are significant, but perhaps overemphasized. Smead feels the air barrier benefit is so great that it all but negates the extra cost. "For those looking to spend the very least money up front, Icynene won't make the cut," she says. "But in terms of total cost and value, I think it's the best thing going."

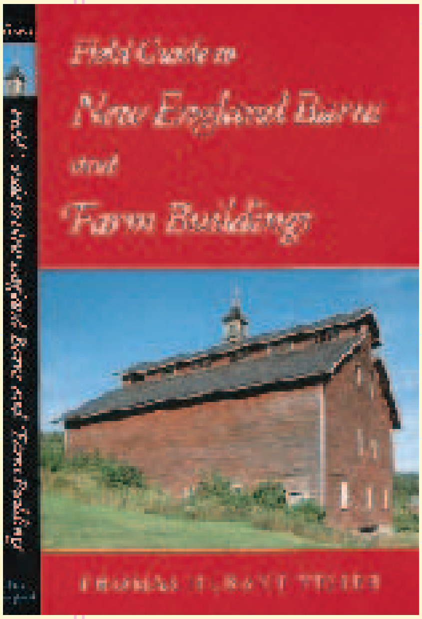
For more information, contact Icynene's New England distributor at DSE Distributors, P.O. Box 281119, East Hartford, CT 06128; 800-641-3411; visit the company's Web pages at *http://www.icynene.co.ca*; or check out builder press and contractor discussion of the material at *http://www.ebuild.com/Archives/Features/Insulation/* or *http://www.greenbuilder.com/sourcebook/Insulation.HTML#FOAM.*

Summer Reading

A Field Guide to Barns Explores Construction's Past

Growing up on a farm, Thomas Visser spent plenty of time working in barns as a kid. Apparently he couldn't get enough, however, for he spent much of the last two years as an adult doing a different sort of work in barns: He drove and walked all over New England, thousands of miles and hundreds of days, to research and produce the definitive *Field Guide to New England Barns and Farm Buildings*, just published by the University Press of New England. The book should fascinate anyone interested in construction or barn history, for it provides dozens of clues — framing details, nail types and sizes, saw marks, wall sheathing types, door hardware, as well as design features both large and small — that can be used to try to identify the date and heritage of a given barn.

You can spend a long afternoon pleasantly with this book, poking around barns and looking for these clues. Ax and adze marks, for instance, identify a timber-frame as hand-hewn, dating it to sometime before the 1850s. "Marriage marks" around mortise-and-tenon joints refine the date even further, for it was in the 1810s that the "scribe rule" technique of cutting timbers and fitting joints piece-by-piece gave way to the more industrial-age "square rule" method that used the square rule and mathematical models to create frames out of precut timbers with identical dimensions and joints.



Other clues can be seen from the road, in what Visser calls a "windshield survey." A tall one-story, gabled barn with side entrance is likely an English barn, the first design to be used widely here; a three-level barn with a ramp to the top level is likely a "gravity-fed" barn, so named because hay for cows was carted into the top level, from where it was thrown down to the wintering cows; manure was shoveled into the barn's lowest level, where it composted till spring.

Two of the many barn styles explored and explained in the new *Field Guide to New England Barns and Farm Buildings*, by Thomas Visser.

Visser's descriptions of the reasons behind these construction and design clues not only help in identifying the rough dates of particular barns, they also reveal much about the evolution of both the agricultural economy and construction technique. Visser, the interim director of the historic preservation program at the University of Vermont, says he wrote the book to spread his own appreciation of barns and other outbuildings. This book should do that for anyone, but especially for contractors and carpenters.

You can order the book through your local bookstore or through the University Press of New England (23 S. Main St., Hanover, NH 03755-2048; 603/643-1700); or check out Visser's Web page about the book at *http://www.uvm.edu/~hist-pres/barns/index.html*.

Latest on the Law

Legal News From Around New England

Nashua debates zoning proposals. This winter and spring found Nashua, N.H., residents, developers, and growth-control advocates debating two proposed zoning ordinances that would sharply curtail development. One proposal would require developers of subdivisions to devote two buildable acres to each house lot and to locate all buildings on less than 50% of the subdivision, with the rest set aside as open space. The second proposed ordinance would establish a quota system of 100 building permits issued in blocks of 25 every three months. Both were hotly debated at a January hearing before the aldermanic Planning and Economic Development Committee, then met rough going in the weeks that followed. The town's planning board sent the ordinance requiring two acres per lot and 50% open space to the aldermanic board with a recommended "No" vote, meaning that ordinance would require a two-thirds majority in the aldermanic council to win. And the permit-quota proposal reportedly never gained substantial support. At press time, both proposals were technically "under consideration," but neither was expected to pass.

Mass. AG busts both workers and employers for comp fraud. A Massachusetts state employee has been charged with workers compensation fraud and larceny for holding three jobs while collecting benefits for total disability. The defendant was a state employee who claimed, by signing a new "wage affirmation" form on the back of his comp checks, that he had no other income, when in fact he was found to be employed by three different companies while collecting total disability benefits.

Meanwhile, in a separate case, a former Dedham asbestos abatement company pled guilty to charges it underreported its payroll for two years to avoid paying workers compensation premiums. The company was sentenced to two years probation and ordered to pay the $66,000 in back premiums to its workers comp insurance carrier. In addition, the company president had to pay $20,000 in court costs and perform community service.

Grossman's files Chapter 11. Grossman's filed for Chapter 11 bankruptcy protection in April in an attempt to reorganize its debt and continue business, according to news reports. The building-supply chain, which recently closed some stores including one in Montpelier, Vt., still operates 28 lumberyards and home stores in the New England/New York area, but has weathered tough competition lately from larger chains such as Home Depot. Grossman's legal move, along with new agreements with some of its existing creditors, is expected to give it the financing flexibility it sought in an attempt to stay in business. No more planned store closings were announced.

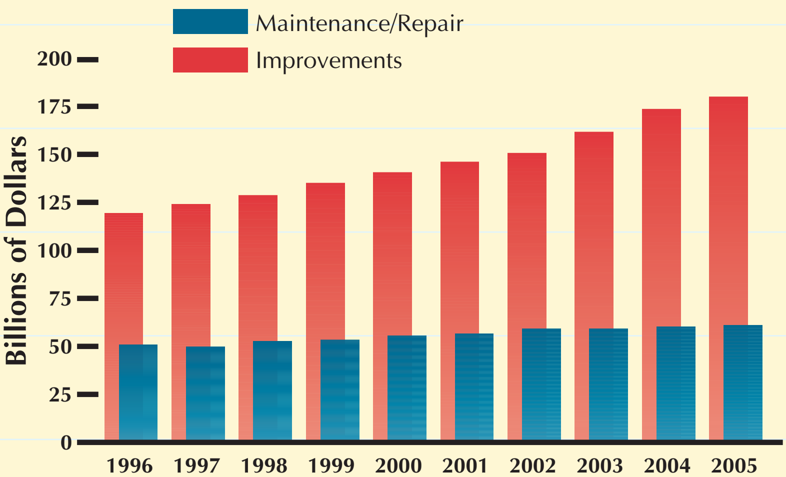
Remodeling 2000 — and Then Some

NAHB Projects Strong Remodeling Growth

The National Association of Home Builders predicts that remodeling expenditures, led by strong growth in improvements, will grow much more rapidly than the economy at large over the next decade or so.

Forecast of Remodeling Expenditures

(In Current Dollars)



Source: NAHB Economics

Short Cuts

Brief Items From Around the Region

Private Lands May Help Stabilize Lumber Markets

While regulatory, trade, and supply issues will probably continue to cause fluctuations in timber prices, an article in *Random Lengths*, a highly respected forest products newsletter, predicts that a growing move toward harvesting private lands instead of public lands may bring some stability to lumber prices. Private lands are less subject to environmental regulations and public policy disputes, and thus are more reliable sources of timber, at least in the short term. The *Random Lengths* article noted that 80% of the 1996 harvest in Washington and Oregon was from private lands, indicating that owners of those lands are moving to fill the gaps created by reductions in cuts on federal lands.

It's Not That I Hate Trees ...

According to a story in the *Boston Globe*, a recent survey of Boston-area residents found that 29% of nonrecyclers feared their neighbors would think ill of them if they put out the city's telltale blue recycling bins. Asked "What do recyclers look like?" one nonrecycler reportedly said, "They're the people who don't go to Bruins games all year and then they're in my seat at the Stanley Cup." Another 7% of respondents thought everything put in the blue bins was secretly sent to the dump anyway.

Despite low participation in some areas, however, the survey found that Boston metropolitan-area residents recycle about 32% of their solid waste, up from 10% in 1992 — healthy progress toward the state goal of 46% recycled by the year 2000.

New England Economy:

Behind the Numbers

Commentary by Stanley Duobinis
Director of Forecasting, National Association of Home Builders

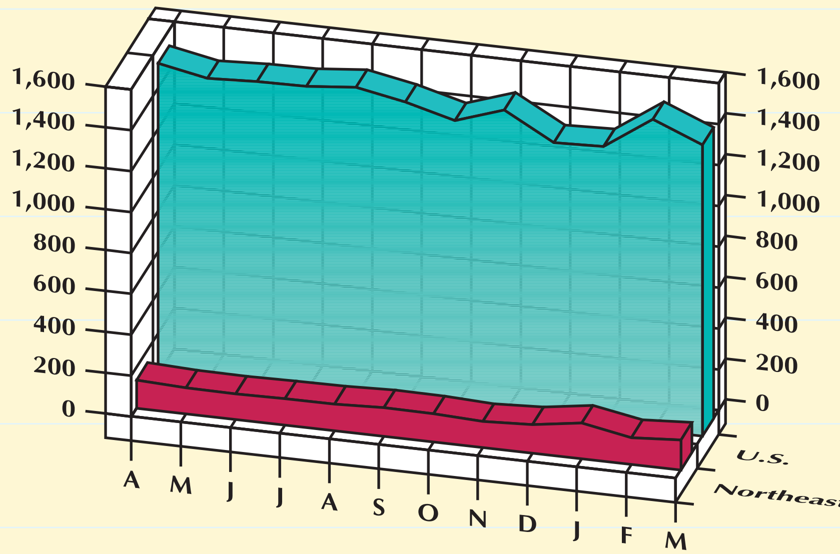
March's construction statistics for the region continue the erratic pattern the region has shown for the last two years. While total U.S. housing starts dropped in March by 6.4%, starts in the Northeast jumped 11.5%, from 131,000 units to 146,000. This rise (as well as the rise and fall from January to February) continues a pattern of surges followed by large dips seen in the Northeast over the last two years. The drop in permits from February to March suggests we'll likely see a drop in starts in April or May.

It seems hard to find connections between such month-to-month oscillations and the region's economy. But these changes (and the upward overall trend of the numbers) are rooted in the unusually long, slow nature of the regional economy's recovery from the 1990 recession. With extensive restructuring of major industries in metropolitan areas such as New York, Hartford, Boston, and Philadelphia, the Northeast has seen the slowest recovery of the nation's four census regions. Because of its high cost of doing business (which discourages businesses from moving into the region), New England and the Northeast must generate its economic and employment growth from within more so than for the other three regions.

Editor's note: *This is the first in a series of regular monthly commentaries on the New England/New York construction economy by economist Stanley Duobinis, director of forecasting for the National Association of Home Builders.*

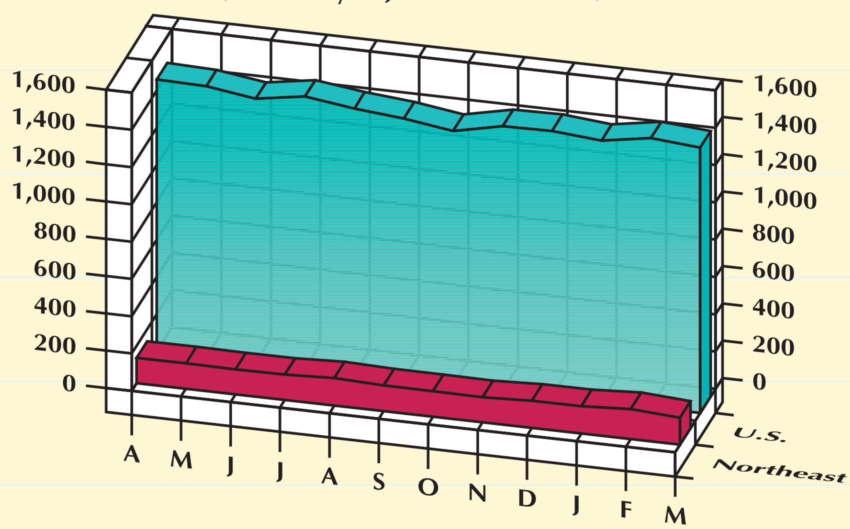
Housing Starts, U.S. & Northeast

(Seasonally adjusted annual rate)



Building Permits, U.S. and Northeast

(Seasonally adjusted annual rate)



New One-Family Houses Sold

(Seasonally adjusted annual rate)