



## Increasing Equity in a Post-Pandemic Economy: The Potential for Growing Worker Ownership – Job Quality in Practice Webinar

Hosted by the Aspen Institute Economic Opportunities Program

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### Description

The pandemic placed the economy into a sickening tailspin. The crisis has brought enormous pain. Can it also catalyze advantageous changes that expand opportunity and equity? Companies can share economic success through various models. Employee Stock Ownership Plans (ESOPs), worker cooperatives, profit sharing, and forms of equity participation all present different opportunities to share that success. Employee-owned firms have also shown strong resilience through economic downturns and often use management approaches that lead to higher-quality jobs. How can these strategies help shape the economic rebuilding that is to come? How can they address the inequalities and inequities that have divided our society and help us build a more resilient economy?

This is the sixth webinar in our Job Quality in Practice series. The outstanding panel includes:

- Joseph Blasi, J. Robert Beyster Distinguished Professor, School of Management and Labor Relations, Rutgers University
- Tomás Durán, President, Concerned Capital; Job Quality Fellow, The Aspen Institute
- Alison Lingane, Co-founder, Project Equity; Job Quality Fellow, The Aspen Institute
- Joyce Klein (moderator), Director, Business Ownership Initiative, The Aspen Institute Economic Opportunities Program

The Job Quality in Practice webinar series is designed to support practitioners across fields – including workforce development, economic development, capital deployment, policy, worker advocacy, and business – to address job quality in their work. Webinars share updates on current conditions and priorities as well as actionable tools and approaches. We also seek to highlight leading practitioners' work and create connections across disciplines.

We are grateful to Prudential Financial for its support of our Job Quality in Practice webinar series and our ongoing efforts to advance a job quality field of practice.

The Economic Opportunities Program advances strategies, policies, and ideas to help low- and moderate-income people thrive in a changing economy. Join our mailing list and follow us on social media to stay connected to our work, including events, publications, blog posts, and more. Learn more: [aspen.org/eop](https://aspen.org/eop)

## Transcript

### Joyce Klein (00:00:00)

Good afternoon, everyone, or good morning to those of you on the west coast, and welcome to the Aspen Institute Economic Opportunities Program webinar. The title for our event today is Planning for a Post-COVID-19 Economy: How Worker Ownership Can Boost Job Quality and Build Resilience. I'm Joyce Klein. I'm the director of the Business Ownership Initiative within the Aspen Institute's Economic Opportunities Program. So, I'm part of the team at EOP, as we call ourselves.

I'd like to thank you for joining us today. We're really pleased by the strong registration for this session. We had almost 1000 folks register, but I presume we'll have close to 500 actually joining us today so real strong interest in the topic for today's webinar. We have a trio of really extraordinary presenters, and we're going to get to them soon. But first, I want to start by noting our deep appreciation for the support of Prudential Financial in bringing you this Job Quality in Practice webinar series. Prudential and our valued colleague there, Sara Kaye, have played an instrumental role in supporting all of EOP's job quality work and we're deeply appreciative of their commitment to job quality, and also to an inclusive economy.

This is actually the sixth webinar in our Job Quality in Practice series, so for those of you who are new, welcome, and for those of you who have joined us before, it's great to have you back again. This series is designed to support organizations that are working in a variety of disciplines related to economic opportunity, so that includes folks working in worker advocacy and workforce development and economic development, and capital deployment, policymakers, folks in the business community to address job quality in the work that they do. The webinars share actionable tools and approaches. They highlight the work of leading practitioners in this area, and we hope that they spark new ideas and fresh thinking around opportunities to advance job quality.

You can learn more about our job quality and practice work and find links to the previous webinars at the link here: [as.pn/jobqualitypractice](https://as.pn/jobqualitypractice). I'd also note that today's webinar is part of a full suite of EOP job quality activities, and in particular I want to note that last week we launched a Job Quality Tools library, which is a compendium of practical tools and resources for organizations that want to learn more about how to build a job quality focus into their work, so if you haven't had a chance to visit that, please do so. Perhaps, right after the webinar. The link to that is also here in terms of the Job Quality Tools link you see here. Please explore that as soon as you can.

Now, a little bit in terms of our technology before we get into our content. I know that many of us are probably more familiar with Zoom these days than we want to be, but just in case, a few things to note. We are using the webinar format in Zoom, which means that all attendees are muted. You can listen through your computer. For those of us who are having bandwidth issues, if you're having any trouble with the audio, sometimes it helps to actually join by phone as well and use the phone audio rather than the computer audio, and you can still view things on your computer.

You can use the Q&A box on the bottom of the Zoom window to submit comments or questions. We do have time at the end to take questions and to put them to the presenters. Given the numbers who are attending, we probably won't get to all of the questions, but you can upvote questions so we can get to those that are some of the most popular. If you have technology issues, you can chat with Tony Matria on our team via the chat function, or if you're having trouble on your computer access, try emailing [EOP.Program@AspenInst.org](mailto:EOP.Program@AspenInst.org) and share your technical issues that way.

I'd also note that the webinar is being recorded and the recording and the slide deck will both be available on our website following the event. One of the things that I want to put out is that I already

shared some links with you. You'll see links to other content and resources that presenters are sharing. You don't have to scramble to write those down because the links will be in the slide deck that will be posted.

And finally, to note that closed-captions are available, so if you want to activate those, you can click the button at the bottom of your screen to do that.

So, let's get into our content for today. We find ourselves today in some really extraordinary times as we confront the COVID-19 pandemic, and the resulting extreme economic deterioration that that's creating. We've seen unemployment skyrocket. Literally millions who had a fairly secure economic foundation are now struggling to pay for housing, food, healthcare and other basics because they've been unemployed. Many frontline workers who are working in essential jobs and were already struggling to pay for the basics because of the wage levels and quality of those jobs are now risking illness by being in those jobs. I think certainly looking forward, many of us are concerned about what a prolonged economic recession or perhaps even depression will mean for job quality for frontline workers across the economy.

I would not that as we think about this issue, it's also important to recognize that frontline workers represent a broad and diverse group of people. Among frontline workers, Black and Latino workers face systemic racial biases that mean that they're overrepresented in front line jobs such as healthcare, retail, food service and in part for that reason, they have been disproportionately affected by COVID-19. Women across and within these racial groups are also concentrated in frontline jobs.

And from a place-based dimension, we know that there are many rural communities that have struggled already from years of economic disinvestment and while COVID-19 has been less prevalent in some of those communities, there are also others that have been really highly impacted for a variety of reasons. Employee ownership models have in the past played a key role in local economies. We think they have an important one going forward as we face the economic challenges that are created by this pandemic. Employee ownership has been demonstrated to boost job quality, to enable local businesses to survive and to retain local ownership over time, to build wealth and address wealth inequities, and through all that, to really bake and grate a resilience for economies, communities and families.

So, what we want to do today is to explore the role that employee ownership can play in light of current and future economic realities. In terms of our agenda today, as I mentioned we have three outstanding leaders of the field. I will give you their full titles and bios as we hear from them, but they include Joseph Blasi from Rutgers University, Alison Lingane from Project Equity and Thomas Durán from Concerned Capital. Each of them is going to speak for about 10 minutes on some questions that we asked them to touch upon. You'll hear across those presentations about what we know from national research on the value of employee share ownership and participation. You'll hear directly from folks working directly in communities and with businesses to expand employee ownership. And then, we're going to take audience questions.

So, we're going to get right into our discussion. We're going to start with Joseph. Our first presenter is Joseph Blasi. Joseph is the J. Robert Beyster Distinguished Professor and Director of the Institute for the Study of Employee Ownership and Profit Sharing at Rutgers University. We're delighted to have Joseph. He's truly one, if not the nation's foremost expert on employee capital share strategies. In terms as we use that term capital shares strategies, we include broad based employee stock ownership, profit sharing, gain sharing and stock options in that broad category.

Joseph's also a long time partner with and friend of the Economic Opportunities Program, and he's going to share some of the research on capital shares as it relates to issue of job quality, but also some

other key outcomes that relate to the circumstances we're confronting today. Joseph, welcome and take it away.

**Joseph Blasi (00:08:30)**

Okay, thank you very much. I'm delighted to be here with you today. I'm going to go to the next slide and first I want to give an idea of some of the metrics on employee share ownership in the country. According to the National Foundation's General Social Survey, about 20% of all adult workers have access to employee share ownership at their workplace. This would be either through ESOPs, Employee Stock Purchase Plans, worker cooperatives, equity compensation ... Typically in publicly traded companies, restricted stock plans and other forms. As I said, ESOPs are among the most common, although Equity Comp Plans are very common in the public stock market, and worker cooperatives are a growing phenomenon, especially among modest income workers.

ESOPs currently cover about 11 million employees in just over 6000 companies, with the total value of employee ownership per employee ... That's before the crisis ... being about \$130,000. I should note that most of the majority owned, employee owned firms in the country are in closely held companies, because ESOPs are mostly used by retiring business owners to sell successful businesses to the employees to maintain jobs in those communities. Although we should note that in firms like Exxon, Chevron, Ford and others, there are smaller ESOPs. Two, three, five. In the case of Proctor & Gamble, maybe it's close to 5% to 10% ESOPs, where the employees also may hold as much as \$130,000 but the percent of ownership of the whole company is very modest.

Recent approaches to employee ownership emphasize two positive features for modest income workers. First a chance to build some capital and wealth in addition on top of wages. Most of the research we show indicates that the employee ownership comes on top of wages, on top of market wages. Secondly, the opportunity to participate more fully in the workplace where you work. So, we'll go to the next slide and I'll give a little bit more detail about this.

There's been quite a lot of research on employee share ownership in downturns, which we appear to believe we're in right now. In a population study of all the ESOPs in the United States found between 1988 and 1994, using Dun & Bradstreet data ... This is a study that I did with several colleagues. Among them, Professor Doug Kruse from Rutgers ... we compared ESOP companies to all non-ESOP companies that were matched according to size and industry. We found that 10 years later by 1999, the ESOP firms were more likely to survive and less likely to go bankrupt. By coincidence, as you recognize, this was the period just preceding the early 2000s recession, so in this Dun & Bradstreet study, when we compare the ESOP to the non-ESOP companies, the ESOP companies were more likely to maintain their employment with 1% change in employment over the period compared to a 3.3 reduction by non-ESOP firms.

It appears that ESOP firms do a variety of things, among them maybe work sharing to balance out their employment instabilities. Just recently, two colleagues and fellows of our institute, Professors Fidan Kurtulus and Doug Kruse in a WE Upjohn Employment Institute Study looked at the last two recessions, between 1999 and 2011, but they looked only at stock market companies that had modest ESOPs and other employee ownership programs. And, they compared them to companies without employee ownership in the stock market. They rediscovered again that there's great employment stability and lower layoffs among the employee owners as the next chart shows.

So, we'll go to the next chart and we'll look at the comparison of non-employee owners in orange and employee owners in blue. We can see a several hundred percent difference in layoffs. Okay, we're going to go to the next chart now. So, related to this question of thinking about the role for modest income workers, we just completed a three-year WK Kellogg Foundation Rutgers study and we found that employee share ownership had an enormous potential for significant increases in wealth among

modest income workers, especially women and minorities. Our team interviewed mainly African-American workers at ESOPs throughout the country. This was a qualitative study. It was the largest study. We had a team of 22 people going across the country doing very in-depth interviews led by our fellow, Janet Boguslaw.

Really fascinating study and the report's available if you want to search for Kellogg and Rutgers, you should find it on the internet. Now, recently data from 2014 and 2018, again the National Science Foundation's General Social Survey, indicates in terms of job quality some initial findings about ESOPs. ESOPs tend to have more defined benefit plans. Pretty surprising. They tend to have more profit sharing. 70% of workers at ESOPs have profit sharing. Really remarkable. More gain sharing, more employee involvement teams, more training in the last year, and more performance-based pay, like profit sharing and gain sharing, that comes to over 10% on top of salary.

They also tend to have a second diversified retirement plan in addition to the employee share ownership, which is very, very important because a key criticism of employee share ownership has been that there's too little diversification. We have a second diversified retirement plan and you have market wages, and the employee ownership is on top of market wages, and then there's this second retirement plan that doesn't eliminate, but it modulates some of this risk issue. We'll learn more about these job quality issues in a new program that we have launched, a new research project, on behalf of the Ford Foundation that will be studying job quality in detail in ESOP companies that my colleague, Dr. Adria Scharf, who is a Beyster Fellow at Rutgers, will be now leading.

You'll be able to follow that study, and case studies related to it, on our curriculum library for employee ownership, [CLEO.Rutgers.edu](http://CLEO.Rutgers.edu).

We'll go to the next slide. It's still too early to know whether the repeatedly confirmed, great employment stability of ESOPs and employee owners that we found in research over the last decade and a half will hold during the pandemic. Rutgers is now working with a nationally recognized social survey firm to compare 1000 ESOP small and medium size firms with the cooperation of the Employee Ownership Foundation, that will help surveying them, to 1000 non-ESOP firms with similar employment in similar industries. We're going to be looking at their access to federal aid, how specifically they reacted to this crisis and responded to it, and we're also hoping to work with the Democracy at Work Institute to include worker cooperatives in this study.

I'm not going to make any guesses or predictions. We should have some really good empirical data. We do know that after robust economic growth before 2020, most closely held ESOPs received a last quarter, 2019, evaluation of their stock that was likely among the highest valuation that they ever received. And, the next valuation is likely to be lower, although I should note that closely held ESOPs are not as exposed to the public stock market as a public stock market company, where the stock is going up and down, up and down daily. But this is something that research will tell us about exactly what happened.

Let's go to the next slide. And, I think the next slide is say thank you very much for joining me today. And, if you want to learn more about our institute, you can just google Institute for the Study of Employee Ownership and Profit Sharing, and I look forward to the discussions and the comments of my colleagues. Thank you.

Terrific. Thank you, Joseph, for sharing that. I think just a few things I'd highlight. The first is that you and your colleagues at Rutgers, and many other colleges you work with, have done an amazing job of really establishing a research base that gives us a lot of insights into the value of employee ownership, and has shown that it has really broad effects in job quality among many of the dimensions of job quality that we tend to look at and think about with any EOP and with many of our colleagues that are concerned about this issue. So, I think that's really important.

**Joyce Klein (00:18:15)**

We see the broad job quality effects. We've also seen that typically employee owned firms have been really resilient in downturns. Of course, this one's really different so we'll see what happens but it's great to know that you're going to be tracking that.

So, that's a research perspective for folks, and now what we wanted to do is let you hear from two practitioners who have been working on the ground to help companies move towards employee ownership, so we're going to start with Alison Lingane. Alison is the co-founder, along with Hilary Abell, of Project Equity. And, Alison is also a Job Quality Fellow with our Economic Opportunities Program. But in terms of Project Equity, it works with partners around the country to raise awareness about employee ownership and also provides hands-on consulting and support to business owners that are interested in transitioning to employee ownership and also works with the employee owners as they take ownership of the company. It helps them through that process.

And last year, in addition to seed funding from the Quality Jobs Fund, Project Equity launched the Accelerated Employee Ownership, which is an investment fund that supports transitions. So, Alison, thanks for joining us. Alison is going to talk a little bit about what she sees as some of the challenges and opportunities that the crisis has created with respect to engaging companies around adopting shared ownership strategies, and also talk a little bit about the kinds of partners that can play a role in helping to identify companies that can be good candidates for employee ownership and how to connect them to resources. Take it away, Alison.

**Alison Lingane (00:19:44)**

Wonderful. Thank you, Joyce. I'm so very pleased to be able to join this conversation today. Thank you to the Aspen Institute and Prudential for your support of the Economic Opportunities Program. After listening to Joseph, isn't it just so easy to fall in love with employee ownership? There's nothing not to love about it. I've been asked to share a story, and I've chosen one that shows the human impact, particularly in this time of crisis.

Recology has been employee owned since 1986, and they have over 3800 employee owners. They're the primary waste management service provider in the city of San Francisco, and also work in different locations in California, Oregon and Washington. Now, Recology is a great company in many ways, including how it's responding in the current crisis. Under its Recology Recovers policy, the company is currently paying all employees their full salary and benefits, even if the company is not able to provide them with full schedules. We asked Recology if there was anything that they wanted to share about the role of employee ownership in their response to the crisis or the future economic challenges, and they shared that their decision making process is different from what you might see in a publicly traded company.

Whether crisis situation or not, they don't have public shareholders assessing their financial situation with a short term, single point in time lens. Instead, they naturally look at today and tomorrow and the years ahead when making their decisions. In addition, many of their employee owners live in the communities they serve, so that means they're not only serving the community but they're members of the community. So, when the community is hurting, they're hurting. When the community needs help, they help.

The data shows that employee owned businesses build strong communities by prioritizing their workers and their community's needs. And, Recology is a living example of that. Next slide, please?

We saw a need to have all of this amazing data in one place, and Project Equity is about to release a new white paper called *The Case for Employee Ownership*, authored by my co-founder, Hillary Abell, that does pull together a summary of the most up-to-date research. You can download this executive summary and sign up to be notified when the full paper is available ... We expect in a week or so ... at [Project-Equity.org/whitepaper](https://Project-Equity.org/whitepaper).

We find that employee ownership is an issue that crosses the aisles. It gets supports from republicans, from democrats alike, and listening to Joseph, reading this white paper makes it clear why. This is truly a win-win-win. And, what is needed is more support to help it grow and scale. That's amidst the current crises facing small businesses. Next slide.

Yes, I did say crises, plural. Pre-COVID, we already had a small business crisis given that nearly half of all job creating small businesses are owned by retiring baby boomers. We are deeply concerned that we will see further wealth concentrations coming out of the COVID crisis as locally owned businesses close down or are bought up by larger companies or private equities. The most recent survey by the US Chamber of Commerce came out on May 5th shows that more than one in five small businesses say that they are two months or less away from closing permanently. That's huge, right? Major crisis.

We have already seen ... You've probably seen in your community, as well ... some business owners just decide now is the time to close up shop rather than weather the crisis. So, we've been looking at ways that we might be able to help influence these businesses to keep their doors open and to transition to employee ownership. Next slide, please.

We recognize that in order for businesses to be able to transition to employee ownership, they need to be alive and they need to be profitable. So, our question is, and what we're in conversation with a number of potential partners about, can we provide financing paired with technical assistance to support them to weather the crisis and to do the retooling necessary for social distancing? And, can we set that up in a way that incentivizes an employee ownership transition by, for example, making that financing available? We invite and welcome thought partnership from folks who are in on this webinar today, maybe interested in exploring this idea further with us.

But government, of course, is an obvious player in helping to keep small businesses alive. Excuse me. And, there are important ways that government can also help to expand employee ownership. Next slide, please.

One of the data points in our forthcoming white paper is from a study that Corey Rosen at the National Center for Employee Ownership did of the implied savings to the federal government for paying out less unemployment because, as Joseph mentioned, employee owned businesses lay their workers off more slowly, then hire them back more quickly. This study showed an annual estimated unemployment savings of about \$8 billion, with a B, \$8 billion dollars to the federal government, and it turns out that was about a 4X return on the investment that the government makes in employee ownership incentives. So, if all of the other reasons to fall in love with employee ownership don't convince lawmakers, this clear return on investment should.

We've been working with a broad set of allies in our field to help shape a policy agenda for how to embed employee ownership into a resilient recovery. So, what I've got on this slide I'm going to walk through quickly is what we believe to be the most important components. Ultimately, the key roles that government can play are in education, loans, tax incentives and in what we call candidate spotting, or helping to spot businesses that could be good candidates for employee ownership.

We would like to see the federal government do three things. First, provide funding to states to educate business owners about employee ownership. Second, build on the Paycheck Protection Forgivable Loan Program to roll out additional crisis financing for companies that transition to employee ownership.

So, what I touched on in the previous slides. And third, permanently remove the barriers in the SBA loan and loan guarantee programs for employee ownership transition.

At the state level, our act would be first take that federal funding for education and put it to work quickly through employee ownership service providers, and also, require that the state funded business service providers also educate about employee ownership. Second, for states that have loan guarantee programs, tap these programs and make those loans forgivable, those business continuity loans forgivable for companies that transition to employee ownership. Again, what I note on the previous slide. And finally, for states that have capital gains tax, waive it for employee ownership transition in order to sweeten the pot for the business owner to choose this path.

Now on the local level, cities and counties are going to be less able to invest dollars. They just aren't going to have them right now, but local is where the relationship with business owner's situation. Local economic development and workforce teams can serve as connectors and candidate spotters. Also, we hope that cities and counties, and frankly states as well, will think creatively about utilizing the Federal Reserve's new Municipal Liquidity Facility to finance business preservation initiatives that include employee ownership due to its preservation of taxes.

So, this has been a deep dive into how government can advance employee ownership, but I know there's lots of other people sitting in on this webinar in a whole range of roles, so if you could advance to the next slide, we want everybody participating to be able to see themselves in this work. And, I won't go through all of these because I'm getting short on time here, but I do want to call out two in particular. First, city or county economic development teams and the important role that they play in being candidate spotters and connectors. In our work at Project Equity, we partner directly with a diverse set of cities and counties in important programmatic ways. I'd be happy to get more into this in the Q&A.

But we also work with dozens of organizations to educate them about what to look for in a business, if it's a good candidate and help them to refer to qualified employee ownership practitioners. Second, especially in today's environment, the rapid response teams at workforce development boards can be important first responders, also great referral partners, and they can cap layoff aversion funds for employee ownership feasibility studies.

So, if anybody's interested in talking more about this, please do not hesitate to contact me. I would be happy to help you play a role in expanding this powerful business model. The next and last slide here, as Joyce mentioned in introduction, Project Equity works directly with businesses to quarterback the entire process of the employee ownership transition, including supporting the new employee owners for two plus years plus transaction to ensure that they and their company are really thriving in their restructure. We also do have financing available through our joint initiative with the National CDFI Shared Capital that's called Accelerate Employee Ownership.

We have an upcoming webinar. We invite you to join, if you want to learn more about how employee ownership transitions work, Tuesday, June 9th. You can sign up on our website at [Project-Equity.org](https://Project-Equity.org) at the Events and Webinars pad. And with that, I will turn it back to Joyce.

### **Joyce Klein (00:29:11)**

Terrific. Thank you, Alison. That was perfect. And, great timing on our presenters. You guys are nailing it in terms of your time, so we'll have lots of time for questions, and I do want to encourage folks who are listening, feel free to chat in a question at any time. We're taking them now and going through them so we can queue as many of them up as possible. So with that, thank you, Alison again, I'm going to turn it to our final presenter, Tomás Durán. Tomás is president of Concerned Capital, which is a social benefit



corporation based in Los Angeles. At Concerned Capital, Tomás's team developed what they call the Transfer of Ownership, or TOO, program, which as they say, it recycles manufacturing firms by transferring ownership from retiring owners to employees.

Tomás is also a thought partner to us at the Economic Opportunities Program as one of our job quality fellows, along with Alison. So Tomás, you're going to laser us in on community, because your work has really been deeply rooted in a specific community. You have more than 15 years of experience in local economic and business development, and now at Concerned Capital your focus is really on providing hands-on support and engaging capital to ESOP conversions in the specific region of the LA area. So, can you give us a sense of your perspectives on what's happening in your local economy as a result of the pandemic and then, how those conditions create both opportunities as well as challenges for employee ownership conversions?

### **Tomás Durán (00:30:41)**

Yes, thank you. Hi, everybody and thank you, Joyce and Mark and Maureen for having me today. I am going to laser in into what's happening in LA, but I also want to note that much of work happens around the country, from rural parts of Maine to the western slopes of Colorado. We're helping economic development professionals as well as businesses transition from the current ownership into something that's more diversified or multiple employee ownership. In southern California, I think the pandemic impact can best be described as severe and long lasting. The Southern California Association of Governments released a report last week that estimates that the decrease in taxable sales is between 26 and 38% over the next year and a half, and that average unemployment rates are going to be 19.3% this year and around 12.2% next year.

What all that means is that a lot of people are not only out of work, but that the recovery is going to be very slow for them. So, what we're finding is that the hardest hit industries in southern California, really tourism ... Everything is based on people traveling, coming, the hotels, the hospitality industry, the amusement parks, the event centers. All those things have shut down, and it's not just that we're missing out on opportunity to be entertained, it's the working people who maintain them, who do the concessions, who do the facility maintenance, who do the marketing, who do security, who do ushering. All those people are left out of work, and it's a big, big chunk of our economy.

The image you see on your screen is actually the dozens and dozens of oil tankers that are parked in the Santa Monica and San Pedro bays because they're unable to offload the oil. While it does get talked a lot, oil is still a very large part of our local economy, as well as the activity that happens within the port of LA and Long Beach. We're looking between one out of every three jobs in southern California is tied to that enormous economic engine. So, we're getting a really severe impact.

Now, there are parts of LA that aren't being affected and that tends to be the white-collar type jobs, the jobs that are based on services where you don't have to be in a location or at a place to do. And, those jobs are doing okay. We're also seeing a lot of private equity activity. LA is home to family offices whereas Silicon Valley may be the tech entrepreneurs and New York has Wall Street and the hedge funds, we have the family offices. What we're seeing is a lot of activity of people to pick up distressed assets. Not necessarily to preserve their jobs, but because they're trying to keep those assets.

So, coming out of this, where we see the opportunities coming out of this, is the housing is still needed so we'll see construction coming out of that. We're also anticipating large investments in economic development and CBDG funding as well as public works projects, so there's going to be some economic development activities based around improving public infrastructure as well as providing facility maintenance and that sort of thing. But we're also seeing manufacturing in aerospace and defense holding well, as well as communication, and med aircraft as well as medical device.

So, we focus at Concerned Capital on manufacturing and the reason we do that is because it's a place-based strategy. Southern California has a large concentration of manufacturing here. It's the gateway to middle class for most of our communities. It has a very low bar to entry for a lot of people there, and it still employs a significant number of people. It's gone down significantly, but there are still a lot of opportunities because we still manufacture garments, we manufacture food and we manufacture a lot of stuff that's happening in aerospace and defense.

So, we see those places as an opportunity to ... There you go. Right there. ... to emerge and see some activity there. All these things, and I want to hark back to what Alison said are affected by the age of the owners. In the last three weeks, I've probably talked to 50 different manufacturing firms throughout southern California, and as I'm talking to them for a program that I work on that's funded by the Department of Defense to work with defense manufacturers, and in my conversations with them, a lot of them are looking for a capital. They're looking for some way to fund their operations going forward because the expectations that they still have to produce parts for their customers, but the working capital is starting to dwindle.

And, as we're talking what I'm finding is that they're looking for capital because they're no longer willing to put in their own money into the business. And, they're looking for other sources of debt because they're not sure when they're going to be able to recapture whatever equity they put in now. They want to keep their powder dry. What ends up happening is the businesses start to slow down. They stop growing, they stop adding people. They go into a conservative mode, conservation mode, and really at the end of it is that the owner's looking for his way out. He's looking for his exit.

Now, one of the reasons we like working in manufacturing is because of longevity of workers and the relationship between workers and owners, and what we find is a lot of these owners don't want to just shutter the business or sell it because they have relationships with their employees and they want to make sure that they're okay. This slide that you're looking at now where we're talking about post-pandemic transition, when that owner decides that they are ready to retire and they are ready to sell the business or dispose of the assets, they basically have five different options. They have speculators and investors, who are very active right now. They're very well-funded and they're busy picking up companies. You have the competitors that aren't as active anymore, but will just buy the company for the assets.

You have dismantlers that are just looking at the resale of the machinery and maybe some intellectual property. You have employees and insiders who want to keep the business going as an ongoing concern, and then you have the liquidators who are just waiting to pick up that distressed asset at a steep discount that they can then turn around and make some money on. Right now, the liquidators are waiting in the wings, waiting for that falling knife to stop falling so they can pick it up and pick up that distressed asset. Dismantlers are on hold. The competitors aren't doing very much because they're trying to stay alive themselves. It's really the speculators and private equity people and the employees who have the opportunity to pick up some businesses. Let's go to the next slide, please.

The challenge, though, is that when an owner wants to sell his business, his perspective on the value of that business is going to be very different than the person buying it. And in this image that you see here, you have one person on one side saying there's four, and the same person looking at the same object is saying that there's three. What we do as an organization is help figure out how you get to yes between those two entities. Because the owner is valuing goodwill. It's an intangible property. They're valuing this business that they've spent a big chunk of their life building and put a lot of time and energy into, and have a lot of emotional connection to. A third-party who's just looking to purchase the assets is not looking at any of those intangible things. But the employees are, and the employees will often understand the business far better than anyone can just by reviewing spreadsheets or looking at the EBIDA and doing their own analysis.

It's like selling your house to your brother or your sister. They know it's a good house, but they're also going to understand that there's going to be some things that need to be maintained and they have that insider knowledge. Let's go to the next slide. So, what we do is help the owners see, "Look, if you do sell it to the workers," just like Joseph and Alison mentioned earlier, "there's a ton of great benefits. Just a lot of great reasons why you should do it." But, the thing to keep in mind is that this is risk. Now, the image here you see this young man standing on the ledge in Yosemite. This is at the top of Yosemite Falls trail, which is a 2,600 climb up that takes about six and a half hours to do. The reason I have that on there is because what we're asking the employees to do involves taking a risk that their perception may feel overwhelming, maybe terrifying.

I did this route, and for much of it I did it on my hands and knees because I was terrified of the height. Now, my perception was that it was unsafe or scary. All the other people walking and passing me up quickly are running up the trail were fine with it, but it was my perception. So, we never want to lose sight that we're asking people to risk their assets and their hard-earned treasure on something that involves risk. Let's go to the next slide.

Which is why it needs support. Doing this in a vacuum doesn't work. There's always going to need entities like Project Equity, like the Workforce Development Boards, like the foundations that can provide different resources and services, like the Democracy at Work initiative that's pushing the ideas and the concepts forward so that this is not only accepted as something but that there's places people know to go for help. Now, manufacturers it's a little challenging because manufacturers don't go into business because they're very social people and they want to network a lot. They go in because they want to make stuff. There's a higher bar there to get people to engage, but outside of that realm there's a lot of opportunities.

I want to hold up the work done by Inclusive Action for The City and Cooperacion Santa Ana, which are two local groups that are working with people on the ground in the communities to not only promote employee ownership but are helping these micro-entrepreneurs take control of their own financial destiny by operating a business. I will just close on this is by no means an inclusive list, but as Alison mentioned a lot of the things that are on here from the tax credits to the economic development programs to foundations, what I do want to highlight is there's a role, through like Alison said, identifying these businesses but also making it more mainstream and accepted as something that should be pursued.

I want to thank everybody and Aspen for the time to share this information, and I think we're ready for questions.

**Joyce Klein (00:41:04)**

Absolutely yes, we are. We're going to get right into it. The first thing I want to ask you all is we've had a lot of questions from folks as part of the registration process even, before we even got onto the webinar, about where one can or should get resources to do the kind of work ... I think the kind of work Alison and Tomás that you were talking about on the ground. The work to identify and support organizations. If you could speak a little bit to where have you gotten funding in the past, is there anything in some of the recently passed relief and recovery programs to address the pandemic that could be used towards that end, and is there something else you think ... Let's start with the federal government, something else the federal government should be doing as it thinks about how we rebuild our economy? I'm going to start, Alison maybe if you want to start us off on that question. You talked a little bit about that, but talk a little bit about the resource question if you would.

**Alison Lingane (00:42:06)**

My answer is a little bit different now than it would have been if we were sitting in February 19th before COVID hit. February 19th, we were seeing an increasing number of local governments investing in partnerships to advance employee ownership, to reach out to business owners, especially long standing businesses in communities that have really an outside impact on tax revenue because they're higher revenue businesses, and we saw the sources of this financing coming from several different places; general funds from cities, special grants that cities had, CDBG funding. CDBG funding is, I think, an important source for us to be looking at now as well as back in mid-February, and then I did mention the Rapid Response team, the layoff aversion funds from the Workforce Development Board, but that ROI calculation that I shared about the federal government seeing a four times return on their current investment in employee ownership.

If we just saw the federal government put a few billion dollars in one of their next relief packages to support employee ownership, if we saw them adding a few billion dollars to some of the loan programs to be able to tie it to businesses that are doing well by their workers, employee ownership and other strategies, high road workplaces. Relative to the need in the economy and the dollars that are being poured in, this is a strategy that has a clear return on investment. That one slides that outlines how we would recommend government engaging does have a list of all of the different ways that we would think about it.

**Tomás Durán (00:44:04)**

I would just add, so we did a program about four years ago with the city of Los Angeles using Rapid Response money and with the layoff aversion money to train their business outreach people on identifying businesses and then we transitioned. The result was one job for every \$1000 of the grant that we got. One job for every \$1000. So, it's very efficient and I think from 2014, being proactive and going out there and engaging, that's one of the required strategies. It's already in the law. It's just a matter of training people and getting them comfortable with doing that part of it. We're just making a small adjustment to existing funding.

Now, the other thing is EDA. The Economic Development Administration is going to supercharge a lot of revolving loan funds. My business partner, Bruce Dobb, really cut his teeth in this space back in the 90s after the Northridge earthquake using a revolving loan fund to help businesses that had been basically affected by the quake, helping the employees buy those operating businesses and set them on recovery because the owner didn't want to, or wasn't able to, or didn't want to put in the time and energy and money to restart the business. So, there's a bunch of proven stuff here that I think works, and is tried and true around, but I would definitely look at EDA money in addition to the CDBG that I also mentioned.

**Joyce Klein (00:45:27)**

Tomás, is this the right place to give a shout out to some of the work you've been doing with Democracy at Work Initiative and something you're going to put out soon with them?

**Tomás Durán (00:45:34)**

Oh, yeah. Thank you. We were funded by the Kellogg Foundation through a grant through our fiscal agent to do some work and create some modeling for alternative financial structures to help transitions. The initial one was called a bargain sale, when you take a distressed business and you're able to purchase it through an assignment for benefit of creditors, and given how many businesses are likely

going to be declaring bankruptcy, here's an opportunity for employees to use this model to go into the bankruptcy court and say, "Hey, we want to buy this business and keep it going on and growing." Then, they get control of the business for a lower price without all the other debt and obligations that the prior owner had amassed as they were operating before them.

There's also a model in there for a two-step process which involves an intermediary that would purchase the operating business, hold it while the co-op is incubated and then the exit is the employee purchase of that business. This works pretty well with private equity and with other funders who are mission-based who want to see that as an outcome, and we've been getting approached by a lot of private equity firms who are looking to incorporate that into their exit strategy.

**Joyce Klein (00:46:49)**

Interesting.

**Tomás Durán (00:46:51)**

I'm sorry, that'll be shared hopefully later this week or next week as we roll that out.

**Joyce Klein (00:46:57)**

Terrific, terrific. And Joseph, anything you want to add? You're always a big policy thinker about-

**Joseph Blasi (00:47:02)**

Well, I want to add something more practical. I've been studying these employee management buyout transactions and I think it's very important just that we're all on the same wavelength to just very briefly, in less than one minute, understand. Because people might say, "My God, how in a crisis can employees who are having trouble putting their lives together, ordering food, buy their company?" Basically, everybody needs to realize that most people who buy businesses don't use their cash or their savings. They use credit. Investment banker, Louis Kelso, invented the leveraged ESOP, and basically what employees do is they set up a ESOP, employee stock ownership plan, a worker co-op, an employee ownership trust and then this vehicle borrows money to buy the company on behalf of the employees, and the company pays back the loan itself.

The workers are not using their wages. They're not using their savings. They're not giving collateral on the loan. Now, in order to do this one thing must be possible. It's just like getting a mortgage to buy your house. Your house really has to be worth something. So, you have to have a company that has a good credit history, that has a good sales history. Now typically speaking, and I'll end in just a few seconds, for companies that have hard assets like manufacturing companies, you don't need the federal government. Commercial banks and all kinds of banks and lenders out there are willing to loan money for companies that have hard assets to do these leveraged employee buyouts. But, the problem is we have a lot of companies in the economy that are service companies, which don't have hard assets, and that's a situation where the Small Business Administrations, Main Street Employee Ownership Act, it has long guarantees, can help, and where you need some partnering from the groups that Tomás Durán have mentioned.

But the important thing is to get out of your mind that the employees are reaching into their pocket and buying the company. They're basically using credit, which the company pays back, and if it's a sound

company with a positive past and a likely future, commercial banks and other lenders will provide that credit.

**Tomás Durán (00:49:26)**

One thing on Joseph, and I agree with 100% on what Joseph's saying for the ESOP. Our clients and the things that we do are generally key manager buyouts that transition into a wider diverse ownership, so the transition to 100% ownership isn't always on that first day. We do use seven-day loans. We use 504 loans. We use a number of different existing programs, and in those cases, the small employee group that we're working with will put some treasure up as collateral. Or, we'll bring in an investor or partner like The Working World, or any of the other mission-based, Project Equity, any of the other mission-based entities that have funding specifically for that purpose.

I think that there's going to be a need of a variety of approaches to make this work. Our approach is to try and be as market as possible so that it can spread as wide as possible, whether or not the owner is socially motivated to create a co-op, and they just want to exit. That's great. We'll figure out how that works. But I think that it's definitely worth noting that there's a number of different strategies going to before.

**Joyce Klein (00:50:32)**

So, now a question that brings us back into the pandemic and things have shifted. Does the pandemic change the types of businesses that are the best candidates for transition to employee ownership and how does the profile ... This is a two-part question. How does the profile of which businesses are good candidates right now align with the sectors and the industries that have large numbers of frontline workers, particularly in those sectors where we've seen lower levels of job quality, where we've seen higher levels of the workforce being women and people of color who are in those frontline jobs? Bringing together those two things, which companies are good candidates right now and how does that align with the places that we might be most worried about job quality and raising job quality? Anyone want to take a first stab at that? Joseph?

**Joseph Blasi (00:51:32)**

I'll take a first stab at it. First of all, I'm not sure that we can easily predict the future, but I think two things can be said based on research that we have. First of all, the two industrial sectors that are large, at least in the ESOP world, are manufacturing firms that have hard assets and history and future looking opportunity for sales, and professional service firms that have an existing client base. We're also seeing construction firms. Those three industrial groups account for a large number of the ESOPs that have gotten credit over the last 30 years in the United States, so I can say that. That's what we can learn from research.

**Tomás Durán (00:52:29)**

I would say go and find your local economic development specialist and give him a hug. I think that you're going to need a place-based strategy to figure out what works for your area, and those economic development strategies should know. For example, manufacturing makes a ton of sense in southern California. It doesn't in other places. In Kansas and the area around Kansas, they have a program called Red Tire that's helping recycle existing veterinary services and local small businesses that are providing the services that are key for those local economies. I think what ends up happening is you

got to find a reason why the business is there, a reason why it can stay there and continue to grow, and then the champions who are going to help take it over to make it work and go forward.

I like manufacturing because its primary jobs create a path to wealth, it creates a path to growth, but again you've got to look at what's local and what is going to be able to continue to have that demand there.

**Alison Lingane (00:53:29)**

I'll just add a couple quick thoughts which is I love what Joseph and Tomás have said. The reason that we think it's so important to pair the business continuity support with thinking about employee ownership is because businesses that have strong financial fundamentals in middle of February of last year, those are the ones that we want to start with, and then we want to look at, "Well, what do we think that the coming recession is going to do to those businesses?" And, if there are ways that we can help them retool effectively more quickly to be able to take advantage of the modified economic opportunities that are ahead of small businesses, that's a critically important piece of the puzzle.

**Joyce Klein (00:54:15)**

Great. Joseph, did you have one more thing you wanted to add there before I go the next question?

**Joseph Blasi (00:54:20)**

Yeah, just very quickly. If you're associated or observing a business that is being taken over by private equity, you should know we've had several conferences over the last two years at Rutgers on this, there are a number of private equity firms that have come up with models to use broad based employee shares and profit sharing to include the employees in acquiring portfolio companies. So, there are models to do that, too.

**Joyce Klein (00:54:45)**

Great. So, let's think about from the perspective of the business owner. If a business owner is thinking she wants to transition her business at some point to employee ownership, what should she be thinking about as she starts or builds or company to set herself up to transition? Or, if they've already built the business and they're thinking, who should they be reaching out to locally? How do they find the person they want? Or, the person who can help them? I know there's networks of folks out there that you might want to talk about. Tomás, you look like you're nodding your head. What would you suggest?

**Tomás Durán (00:55:30)**

Yeah, there's a lot of networks. I would suggest reaching out to your local economic development professionals, the SBDC networks. There's a lot of information and support, and a lot of states have employee ownership centers that you can go and get resources for. I think that the primary thing I would be thinking about is what do you need to retire? What does that look like for you? Lump sum payment, ongoing support, ongoing benefits? Are you trying to preserve your legacy? Are you trying to make sure that the business is set up to be continue to be able to grow? What level of involvement can you have post-purchase to support them? And then, I would look at who's a champion? Who's going to be the person that's going to really be the one to carry it forward and make sure that the employees that want to be involved are involved and can go forward.

And then, the third thing is where are you going to get working capital to support them? Because after the transition, working capital is going to be one of the hardest things to raise. It's going to be a great challenge. So, I would go through that thought process. Succession planning is something that we do a lot with our clients to help not only have them feel better about the transition, but also for the other people who are funding and involved get more comfortable. There's groups like the Exit Planning Institute, which are also skilled at exit planning, but not necessarily for the outcome of employee takeover, so make sure you want to pull in the other information to get involved, to get the employees involved.

**Joyce Klein (00:57:01)**

Alison, you've been doing a lot of local network building around this, so what would you add here?

**Alison Lingane (00:57:07)**

Yeah, absolutely. In different parts of the country, there are hot spots of employee ownership. There are both worker co-op organizations and you can look up, the Democracy at Work Institute has a Workers to Owners Collaborative of many of the leading worker co-op focused employee ownership organizations. There are also many, many great ESOP practitioners. The National Center for Employee Ownership is a great place to go for information on ESOPs. And depending on the community, there are also local networks as well. I would say in terms of a specific business and their planning process for employee ownership, they want to be thinking about what's the management transition, how might building up somebody, hopefully from within the business to be able to step into my shoes so that when I go away, the whole business doesn't fall apart, and then what's the culture? How am I investing in an engaged culture among my employees? There's many other things I could speak to, but those are the top two.

**Joyce Klein (00:58:16)**

Okay. Joseph, one thing I'm just wondering if you can speak to this question. Any insights into the biggest reasons why attempts to create an ESOP or other employee ownership structure break down or fail, and how do you avoid those?

**Joseph Blasi (00:58:34)**

Well, I think that there would be three reasons. One is trying to rescue a failing firm. That's likely not going to work with either an ESOP or a worker co-op or an employee ownership trusts. Secondly, not dealing with the firm that has a solid credit history, expectation of future sales. It's saying the first thing, but in a slightly different way. Thirdly, a firm that has really bad labor management relations. It's unlikely you're going to be able to cure them unless you really address that very, very seriously. I think those are three things.

I would say a fourth thing is a firm whose market has gone away, or is going away. Unless the new company includes some new markets, new ideas, new innovations, you don't want to do an employee management buyout in a buggy whip company when automobiles have just been discovered.



**Joyce Klein (00:59:46)**

Right. So, that's potentially a challenge in the current context is we're going to have to figure out what's happening in terms of the strength of some of the businesses that may be transitioning given that we're in a very uncertain economic context.

**Joseph Blasi (00:59:59)**

But, I do want to say especially in communities of color, especially in African-American communities, neighborhoods, there are communities which depend for really good jobs and a small number of family-owned businesses where the owners need to retire, and this is something to look at, has a larger impact on those communities.

**Joyce Klein (01:00:23)**

Great. Well, thank you, Joseph. I'm looking at our time and we're right up at 3:00 and we commit ourselves to finishing on time, so I want to thank again all three of our presenters, Joseph, Alison and Tomás, for being with us today and for your ongoing partnership and thought leadership on that. Thanks again to Prudential for its support of the webinar series and our body of work at EOP around job quality. Thanks for the team here at EOP who do such an amazing job in putting together and supporting these webinars, and they will be the team that posts both the recording and the slides, so you can follow up and find the links that we've referenced there. And thank all of you for joining us today and stay safe, everyone. Take care.

**Tomás Durán (01:01:11)**

Bye, thank you.

**Alison Lingane (01:01:11)**

Thank you, everyone.

**Joseph Blasi (01:01:13)**

Bye, everybody.