



ESOPs, Job Quality, and Wealth Inequality: The Potential of Employee Stock Ownership Plans — Transcript

Hosted by the Aspen Institute Economic Opportunities Program

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Description

Economic inequality and lack of good jobs have left many workers, particularly women and people of color, without a fair share of the US's economic prosperity. Despite the significant rise in corporate profits, front-line workers continue to experience low wages and see little returns for their contributions. Research shows that employee ownership, such as employee stock ownership plans (ESOPs), can be a valuable tool in creating better jobs, building wealth for workers, and increasing businesses' resiliency while reducing employee turnover. ESOPs are the most prevalent form of employee ownership in the US, with nearly 14 million workers participating in them.

The growth of ESOPs has plateaued over the past decade, but the next decade presents a unique opportunity to expand ESOPs as many business owners retire and sell their companies. Low awareness of ESOPs and the benefits they offer, insufficient assistance and support to help businesses convert to ESOPs, and some regulatory policies pose potential barriers, however, to growing ESOPs. How can we take advantage of this once-in-a-generation opportunity to meaningfully grow the number of ESOPs? What impact could this have on job quality, wealth inequality, and our economy? What policies, supports, and assistance do businesses, including publicly traded companies, need to convert to an ESOP?

On April 11, 2023, the Aspen Institute Economic Opportunities Program convened a panel of experts to discuss "ESOPs, Job Quality, and Wealth Inequality: The Potential of Employee Stock Ownership Plans." This is the second discussion in a three-part series, "Employee Ownership's Moment: Conversations to Advance Policy and Practice." This event features a panel discussion with Sean-Tamba Matthew (Stevens & Lee, ESOP Strategies), Noelle Montaño (ESCA), Corey Rosen (The National Center for Employee Ownership), Cindy Turcot (Gardener's Supply Company), and moderator Talmon Smith (New York Times).

For more information about this event — including audio, video, transcript, speaker bios, and related resources — visit aspeninstitute.org/esops.

Speakers



Sean-Tamba Matthew

Shareholder, Stevens & Lee, SES ESOP Strategies

Sean-Tamba Matthew is a shareholder of the law firm Stevens & Lee, and he works with its affiliated business, SES ESOP Strategies. He advises companies, business owners, boards of directors, and employee stock ownership plan (ESOP) trustees on transactional, corporate governance, and formation matters related to the design and implementation of ESOPs. Sean is a frequent guest speaker on a range of ESOP-related issues.

Sean is also a Kellogg Fellow at the Rutgers School of Management and Labor Relations. There, he coordinates the Institute for the Study of Employee Ownership and Profit Sharing's W.K. Kellogg Foundation program, which helps minority and female business owners and their advisors learn about employee ownership transitions. In addition, Sean is a member of the board of directors of Empowered Ventures, an ESOP-owned holding company headquartered in Indiana, an advisory board member of Talley Management Group, an employee-owned company based in New Jersey, and a member of the executive committee of The ESOP Association's Public Policy Council.

In addition to his professional work, Sean serves as a member of the board of directors of Independence Mission Schools, a network of 14 independent Catholic schools providing a transformative education to children of all faiths across Philadelphia, and Nutritional Development Services of the Archdiocese of Philadelphia, an organization dedicated to alleviating food insecurity in Southeastern Pennsylvania.

Sean was named among the 2021 Greater Philadelphia Region's "40 Under 40" honorees by the Philadelphia Business Journal. He received his law degree from Temple University Beasley School of Law and a Bachelor of Arts in Political Science from the University of Pennsylvania.



Noelle Montañó

Executive Director, ESCA

Noelle Montañó is the executive director of ESCA, the Employee-owned S Corporations of America. She has represented ESCA for more than twenty years. ESCA is the Washington DC voice for nearly 200 employee-owned S corporations whose mission is to advance and protect S corporation ESOPs, and which support and sustain employee ownership in every state in the nation.

A former associate with a major Washington DC law firm, Noelle most notably served as legislative director for then-chairman of the House Ways and Means Committee Bill Archer. She holds a law degree from the George Mason University School of Law and a bachelor's degree in public policy from Duke University.



Corey Rosen

Founder, National Center for Employee Ownership

Corey Rosen is the founder and an active staff member of the National Center for Employee Ownership (NCEO), a private, nonprofit membership, information, and research organization. The NCEO is widely considered to be the authoritative source on broad-based employee ownership plans. He co-founded the NCEO in 1981 after working five years as a professional staff member in the US Senate, where he helped draft legislation on employee ownership plans. Prior to that, he taught political science at Ripon College. He is the author or co-author of over 100 articles and numerous books on employee ownership, including "Equity: Why Employee Ownership is Good for Business" (Harvard Business School Press, 2005), co-authored with John Case and Martin Staubus, and "Ownership: Reinventing Companies, Capitalism, and "Who Owns What" (Berrett-Kohler, 2022), co-authored with Hohn Case. He has lectured on employee ownership on six continents.

He has a doctorate in political science from Cornell University. He previously served on the board of directors of the Great Place to Work Institute, creators of the "100 Best Companies to Work for in America" list. He currently is on seven ESOP company boards, with fees going to support the work of the NCEO. In 2009, he was awarded the Txemi Cantera Social Economy Award, given annually in Spain.



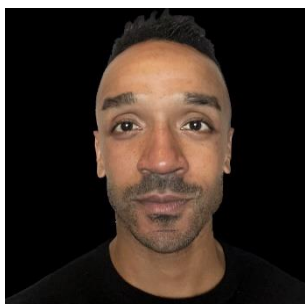
Cindy Turcot

CEO and President, Gardener's Supply Company

Cindy Turcot is the CEO and president of Gardener's Supply Company (GSC), headquartered in Burlington, Vermont. GSC is the leading online retailer and cataloger of home gardening products and has four retail garden centers. GSC has had an employee stock ownership plan (ESOP) since 1987 and became 100% ESOP-owned in 2009. Cindy has been with the company since its inception and has held many roles. She was instrumental in the ESOP transition and is a driving force for a strong employee ownership culture.

Cindy is currently chair of the Employee Ownership Foundation, past chair of the national ESOP Association, and past president of the New England chapter of the ESOP Association. In addition, she was the founding chair of the Vermont Employee Ownership Center and is currently the treasurer. Cindy also serves on the board of directors of three ESOP-owned companies.

Moderator



Talmon Joseph Smith

Economics Reporter, The New York Times

Tal is an economics reporter at The New York Times on the Business desk, covering labor, macroeconomics, and financial markets. Before, he commissioned and edited coverage of business, public policy, and culture as a staff editor for the Times' Sunday Review and Opinion sections.

About

Opportunity in America

[Opportunity in America](#), an event series hosted by the Economic Opportunities Program, considers the changing landscape of economic opportunity in the US and implications for individuals, families, and communities across the country. The series highlights the ways in which issues of race, gender, and place exacerbate our economic divides, and ideas and innovations with potential to address these challenges and broaden access to quality opportunity. We are grateful to Prudential Financial, Walmart, the Surdna Foundation, the W. K. Kellogg Foundation, Bloomberg, and the Mastercard Center for Inclusive Growth for their support of this series. Learn more at as.pn/opportunityinamerica

Economic Opportunities Program

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Transcript

Matt Helmer (00:00:01)

Welcome everybody. I'm Matt Helmer, an associate director with the Aspen Institute Economic Opportunities Program. It's my pleasure to welcome you to today's conversation, "ESOPs, Job Quality, and Wealth Inequality: The Promise of Employee Stock Ownership Plans." This conversation is a part of our ongoing "Opportunity in America" series, where we look at the changing nature of economic opportunity in the US, think about what that means for workers, businesses, and communities, and really try to look at ideas that help create change and create change in a way that promotes shared prosperity and addresses issues of race and gender equity. Today's conversation though, is part of a little bit of a miniseries we're doing on employee ownership as well. In this series, we've been looking at different models of employee ownership, thinking how they're different and similar, thinking about how they work, and really exploring the obstacles to supporting their success and growth.

So back in November, we had a conversation on worker cooperatives, and today we'll be discussing employee stock ownership plans or ESOPs. Part of the backdrop for these discussions is really a rising tide of interest in employee ownership, and that includes policy makers. We've seen some recent bipartisan legislation such as the WORK Act. We've seen some state-level policies in action being developed that are designed to encourage employee-owned companies. And this really marks kind of a new turning point and some new momentum in the discussion around employee ownership, which is really exciting. But this is really the result of a lot of decades of hard work and dedication of so many experts, researchers, policymakers, workers, business leaders, philanthropists, including those on our panel today. So I just want to start by acknowledging all that dedication and hard work for getting us to where we are today.

And part of where we are today includes this good body of research that really demonstrates the benefits of employee ownership. So we know that when employee ownership is designed well, it works really well for workers, right? Workers and employee-owned companies have equal or better pay and benefits, they have better job stability and security, and they have increased opportunities to build

wealth. And oftentimes they have a greater say in the workplace. They have more autonomy, they have a better seat at the table, which is also good just for their job satisfaction, for their dignity, but also translates into a lot of business outcomes. So we know as well that employee ownership is good for the business because of all this research that's been developed. So employee-owned companies often have less turnover. They demonstrate higher resiliency and economic downturns, they can have higher productivity and so much more.

And all of this kind of makes logical sense, right? Companies are powered by people and people really have a deep connection to the things they own, and it's really even kind of hardwired in our brains. So researchers find that when we're shown images of the things we own, the part of the brain that's associated with rewards and motivation really lights up, which means we're often engaged and invested in the things we own. We care about them, they're a big motivator for us. We want to take care of them, so we take care of the things we own. And really owning a business is no different in that regard. But employee ownership is also really good for communities. It allows them to retain jobs, it allows them to keep the wealth and assets they've built and it can strengthen civic engagement and participation, which is good for our democracy.

We'll dive a little bit into that today as well. The late and great John Lewis said, "Employee ownership is the foundation of a stable economy and a stable society." So for many of these reasons, employee ownership is one of those unicorns today. It's one of those rare things that really has bipartisan appeal. Over 70% of Republicans and Democrats say they prefer to work for employee-owned companies. We see more left-leaning senators like Bernie Sanders being supportive of employee ownership, saying it's one of the most important ways to promote economic democracy and ensure everyone has a stake in the success for our economy. And then on the right side of the political spectrum, we have people like Republican Senator Joni Ernst who says, "Employee ownership can be an important way to retain jobs and keep businesses in local communities, providing stability and opportunity for workers."

Several decades ago, Ronald Reagan was a strong proponent of employee ownership. He called it a "people's capitalism" and said it was a path that befits the free people. So all of this bipartisan appeal and this clear research on the benefits of employee ownership I think raised an important question, which if it's so great and so popular, why don't we have more of it? And why don't we do more to support it? As I said, we're going to talk about ESOPs today, and that's our most common form of employee ownership in the United States. It covers about 6,000 businesses and about 14 million workers, which is great. I mean, that's a good number to start with. But in a country with nearly 165 million workers, it's still a pretty small percentage. And the numbers of people in ESOPs over the last decade have really kind of stagnated. But we're kind of reaching this big opportunity here in the next decade or two where a lot of baby boomers are about to retire.

Now, these baby boomers own somewhere around 12 million businesses. It's estimated that 70% of these businesses will change hands over the next 10 to 20 years, and that's going to represent a transfer of wealth of somewhere around 10 trillion dollars potentially. So that's really kind of a once in a generation opportunity to really remake our economy to be one based on shared prosperity. And I think it again raises some important questions. What would it mean to have an economy that had more employee ownership? What would it mean for workers and addressing issues of job quality and wealth inequality? What would it mean for business innovation and our economic competitiveness? And what would it mean for our democracy? And importantly, how do we make it happen? We have a really fantastic set of speakers that are going to dive into these questions in just a second.

Really quickly on the logistics, all attendees are muted. We want your questions, put them in that Q&A box. We also want your perspective, your resources, your feedback, put those in the chat box. We love your feedback, so take our survey at the end of the event. Help us continue to get the word out about employee ownership, tweet about today's event. Our hashtag is #talkopportunity. If you have any technical issues during the webinar, please message us in the chat or email us at eop.program@aspeninstitute.org. This event is being recorded. You will get a copy of it. Don't worry

about that. We'll make sure it's in your inbox here in the coming week or so. Closed captions are available. Click on the "CC" button at the bottom of your screen to activate it. So as I said, we have a great set of speakers and a terrific moderator today.

I'm just going to put quick names to faces and you can read more about them on our webpage. We have Noelle Montaña, who's the executive director of ESCA, the Employee-Owned S Corporations of America. So glad to have Cindy Turcot, who's the CEO and president of Gardener's Supply Company, as well as the chair of the Employee Ownership Foundation. Grateful to have Sean-Tamba Matthew, who's a shareholder of the law Stevens & Lee, and he works with its affiliated business, SES ESOP Strategies. And many of you, if you don't recognize those names, which I'm sure a lot of you do, if you know a little bit about employee ownership, you'll also recognize Corey Rosen's name. He's the founder and active staff member of the National Center for Employee Ownership. I'll just break my note on brevity real quick to say Corey has a terrific new book out with his colleague John Case, it's called, "Ownership: Reinventing Companies, Capitalism, and Who Owns What."

Here's a copy right here. I encourage you to pick it up. It's a great overview of the history of employee ownership and how different forms work. I keep a copy in my backpack and keep coming back to it. If you know a little or a lot about employee ownership, it doesn't matter. It's a great read. And then finally, I want to welcome our moderator here today, Tal Smith. He's an economics reporter at the New York Times on the Business desk. He covers labor, macro economics, and financial markets. He's done a fantastic job writing about inflation recently, just really great stuff. Prior to this position, he commissioned an edited coverage of business, public policy, and culture as a staff editor for the Times' Sunday Review and opinion sections. Tal, great to have you. I'm going to turn it over to you.

Talmon Smith (00:08:19)

Matt, thanks so much for the kind introduction. Hello everyone. Happy Tuesday. I just wanted to briefly also thank Maureen Conway and the rest of the Aspen team for having me. It's been a very fun journey digging deeper into ESOPs just as a reporter in the last week or so, really, a couple of months in preparation for today's discussion. So with that, I'll just open with a few thoughts that I had, which connect to some of the conversations that I was having with Corey Rosen before we began, which is this idea that we all know income inequality, wealth inequality for essentially a generation, some would say two generations has been increasing and there's a sort of helplessness and hopelessness that can sort of come with that. I'll just go to my notes here that I brought as I was thinking this morning about how I should open. I think it helps to talk about the scale that we're dealing with.

So in talking with Andrew Flowers, who's the chief economist at Appcast, which is a tech firm that aids companies with recruitment, I found that only twice in the last half century have rank and file workers experienced a sustained period of inflation adjusted earnings growth above 2%. So average hourly earnings for non-supervisory workers, so workers that aren't bosses have only been above 0% a few times on a three-year average basis since 1970. So there's a real, real challenge that we have in our economy in terms of thinking that, okay, we all go to work, we earn wages, we earn salaries, and yet we're only able to go over those wages with those salaries at best, a 2% clip per year. And yet we know that stock ownership and the wealth that folks have in real estate and the economy overall tends to grow at a much higher level, then how is the average worker, the average person in a literal sense supposed to get ahead? Enter ESOPs, which amid this sort of sea of hopelessness and helplessness really can offer, along with plenty of other reforms, but in a very distinct way offer some hope.

The sense that employee ownership can be a key to rewarding workers for their work throughout their life and letting them share in our prosperity. So with that, I want to turn to our conversation because I'm not the star of the show. The guests that we have here today for our conversation are. So Matt, thanks for the introduction to get us started. I just want to jump right in and start with you, Corey, since I mentioned you in the introduction and we talked a bit before this conversation really got kicked off.

Just give us a ground level entry into what ESOPs are. Obviously a lot of the folks that are here today watching and joining us probably have a decent idea, but there might be others that don't, so that might be helpful. And then maybe pivot if you can to your own personal experience with ESOPs, which you may had the most personal experience with ESOPs of anybody in this country. And I think everybody here with us today would benefit from hearing a little bit about that personal history. So I hand it over to you, Corey.

Corey Rosen (00:11:44)

Thank you very much. So ESOPs are technically part of retirement plan law. So the same law that governs pension plans and 401(k) plans and the like. What ESOPs do is they provide a way for a company to use pre-tax or tax deductibles, said another way, pre-tax money to transfer ownership from the current owners to the employees. So people often get confused about that thing. Well, employee ownership, the employees have to buy the shares. No, not in an ESOP. They never ever buy the shares. What happens is the company funds this trust, uses tax-deductible money to do it. The trust buys shares from the sellers, and then those shares get allocated to everybody who works there on an equitable basis. They earn it over time. And when they leave the company, they get the value of those shares. If a seller wants to sell quickly, the company is able to borrow money, take those funds, reloan it to the ESOP, and the ESOP now buys a big chunk. And often these days a hundred percent of the company.

So from a just mechanical standpoint, it made employee ownership practical. The second thing that is really distinctive about ESOPs is Congress loves them. Republicans and Democrats, it doesn't matter. There has never been, of the 17 bills that have passed to encourage ESOPs, not one has had opposition from anybody. This is amazing. And Congress has said a number of things. One is the money is tax-deductible. The second is that if you sell to an ESOP and you're a C corporation or become one and you reinvest that money in stocks and bonds of other companies, you can defer tax. You can't do that any other way. And third, if you become or you are an S corporation and you're a hundred percent employee-owned, you don't pay any taxes at all. That's a pretty amazing thing. And all these things Congress said we want to happen for ESOPs. I got interested in this long ago, 1978 to be precise, for precisely the reason you were saying Tal, that I read this article about employee ownership and I'd been thinking about this problem, which was starting then that people's economic security depended on more than just their wages.

And I read a book a little later by Louis Kelso called *The Capitalist Manifesto*, which had been a bestseller in the 1950s. And he said, "As we go through the next decades, returns to income will stagnate, returns to capital will soar." That combination had never happened before. Everybody thought he was crazy, but of course he turned out to be prescient. And he said, "If we're going to create an equitable effective economy, one that will allow capitalism to sustain itself, in fact, we need to provide a way that people can become owners without having to pay for it out of those ever stagnating wages that they can't do." And he came up with this idea of ESOPs as a way to do it. So I thought that was really fascinating and decided, wow, here's an idea that I think will work. We didn't know then. It's too early. I think will work, I think we'll make work more dignified for people, more rewarding for people, and that is politically feasible. There isn't much out there that hits that intersection. So I decided, this is what I'm going to do and I've been doing it ever since.

Talmon Smith (00:15:47)

Well, thank you for that. One of the questions that as Matt hinted that in the intro that comes to mind is, well, if these things are so great, if Corey who was fundamental in creating ESOPs is so smart along with the gals and guys that helped him push ESOPs forward, then why aren't these things more popular? Instead of 14 million, why isn't it 40 million? It's actually also true that many folks don't even know of ESOPs that are out there. Luckily today we do have the leader of an ESOP, Cindy, the CEO of

Gardener's Supply. Hello again, Cindy. If you could for the audience and for the rest of us, talk about your own personal journey, which I think is really interesting because you're a part of a company that did not start out as an ESOP. So while weaving in your own personal experience, also give us a little bit about that internal corporate decision-making, to the extent you were involved about why it made business sense to become an ESOP.

Cindy Turcot (00:16:54)

Yes, good afternoon everyone. We, Gardener's Supply, if you don't know who Gardener's Supply is, we sell gardening supplies, hard goods to the home gardener. Gardeners.com would be our website. And then we have five retail stores. Burlington, Vermont is our headquarters. We do have locations in New Hampshire and Massachusetts. But when we started, we started back in 1983 and I started in data entry. So I've had a long path to becoming the CEO. But in 1987, which was only four years in when our founder looked at wanting to have shared ownership in our company. He learned about ESOPs. We became an ESOP in 1987. We only had 30 employees at that time. The reason we did it was because he believed in the shared ownership that we should get value for the company that we're working for, that we'd be more productive, we'd be more invested, we'd be more interested in what we were doing and making that connection.

But it's a very different than what you tend to see now where people jump to that hundred percent right off or people are ready to sell and they want to go. The baby boomers are ready to go. We were a bit different. He was in his late thirties at that time. So we were really an early adopter in Vermont for sure and in the country, I suppose also. And so we did it not for any tax incentives. So we started at zero, and if we had money, we went to 1%, we went to 2%, and we just gave money as we could afford to. So it wasn't till 12 years later that we actually jumped to the 30%, which is the first time that there was a tax incentive for our founder. So we really did it over a longer path. And ultimately in 2009, it became our ownership succession when he retired and we became a hundred percent ESOP owned. And now we have about 250 employees.

So I know there was a question in the chat, it goes from small to large. But the average ESOP is not huge. It's more in the average range now. Some are really large, but some are small. And so throughout that time, I really became the lead at Gardener's Supply on employee ownership. I was really interested in our founder and how he was having a participatory work environment that we were sharing financials. Ultimately, I became the CFO and head of HR and the COO. And all through that time is how do we have the best communication and open book and participatory management practices that we could have? And that's really what I think opened the door to me being more involved at a national level. I would go to the ESOP Association conferences, I'd always meet with our legislator, which is what we were supposed to do, and do advocacy and talk about why employee ownership was important.

And sooner or later, I got asked then to be more involved at the national level. So I became the president of the New England chapter of the ESOP Association. I became chair of the ESOP Association. And then after that, the chair of the Employee Ownership Foundation, which is the nonprofit arm of the ESOP Association. But I was also the founding chair of the Vermont Employee Ownership Center. It was really all about how Gardener's Supply had embraced this model and how we are doing everything we can to help everybody else be successful as an employee-owned company. We're also doing it internationally. The foundation sponsored the international symposium in Oxford this past September. So we're really trying to say how do we get this model out there in many ways? How do we learn about what other people are doing and how do we help others? So for me, it's all about sharing what we've done, what we've learned, and that this model is a wealth equality model, which was really the important thing for us was it was about wealth equality, and having now think about us this many years later, how much wealth is in all of the hands of our employee owners. So we think it's a really successful model and I want to see more of it.

Talmon Smith (00:20:55)

Yeah, thank you. I guess the thing I keep coming back to and the example of Gardener's is just such a brilliant one because you are so obviously a successful business. But one of the words you said that stuck with me just there, or terms that you said was participatory management practices. And of course that's extremely important. I work in journalism. If you don't have participatory management, the whole operation cannot work. And that goes for plenty of enterprises. And yet it's also that sort of phrase, it's that sort of attitude that a certain set of business folks kind of recoil from. And that might be a cultural thing, it might be an ideological thing. It's probably hard or maybe even impossible to pinpoint. But I want to bring in Sean here, because Sean, you're an M&A lawyer, a lot of what you do is having to both convince, deal with, and strategize about the bottom line, about how the dollars and cents add up.

We were speaking before we opened up to this broader group about the frustrations that you sometimes have despite all your success in this space of getting management teams, getting business leaders, getting CFOs to see the light to the extent there is light of ESOPs.

Please introduce yourself, give us a little bit of your background, and then open up a little bit about those frustrations that can sometimes manifest as you do this work and try to show how there can be a symbiosis between margin expansion and overall business growth and shared prosperity between management and employees.

Sean-Tamba Matthew (00:22:54)

Yeah, sure. Thanks. So Tal, thank you for moderating this discussion and having us all here. And so I'll tell you a little bit about how I came to the employee ownership space. Obviously you don't grow up wanting to become an ESOP attorney. And so for me, it was really about fulfilling my passion of helping other people who were either less fortunate than me or who didn't have the same opportunities that I did to help them get a leg up either through education opportunity or through economic opportunity. Just because of my own background, I grew up in probably the poorest municipality in Ohio. One of the worst school districts. Got help along the way to really take advantage of opportunities that my friends and neighbors didn't have. And so going along the path of training to figure out what I wanted to do, I dabbled in politics. That was not my jam, for lack of a better term. And sort of fell along the path, I think a lot of professionals fall along, especially with legal professionals are just, "Hey, I'll work at a law firm for a couple of years, pay down some student loan debt, and then transition into the nonprofit sector to work for one of the handful organizations to help push the needle in terms of the impact that you want to see in society."

I fortunately had the opportunity to meet my colleague and mentor Jim Steiker, who founded SES several decades ago, and was introduced to the concept of employee ownership through ESOPs. Was impressed by the impact that it had on employees and on the business owners who wanted to continue their legacy in their communities beyond their exit. Which when we get into some of the frustrations that you see with other business brokers or advisors or folks who are dealing with lower, middle market companies, they fail to give the full spectrum of opportunities for transitions to their clients. Many of it, much of it, some is self-interested, to be frank. There is a path to getting your fee and a transaction and it's selling to a financial buyer or strategic buyer. They don't necessarily go down the ESOP path with the path because it's a regulated path and requires some more complex analysis than your typical M&A transaction to make sure that you're complying with various regulatory requirements. But it's not that different.

The frustration really lies on dispelling some of the myths about, hey, they're too complicated, or hey, they're too expensive, or hey, I heard that this guy was sued for someone godly sum of money because the DOL came after that, Department of Labor came after them. And it's trying to help people

understand the real risk that's there as it relates to the regulated piece of it, but also to help them understand how the ESOP option fits within the series of options that you have when you talk about transitioning your business and dispelling some of the myths and dispelling some of the complexity that folks assert that's there, the one that's really not.

Talmon Smith (00:26:39)

Yeah, thank you. Thank you. And to make sure that we make sure everybody gets involved here. Last, but certainly, certainly not least, we have Noelle, who as we mentioned leads ESCA, which is celebrating its 25th anniversary. So congrats to them and congrats to you, Noelle. Noelle, please introduce yourself as everybody else has here today. And in the spirit of that 25th anniversary, if you could give us the arc, even if there's been wiggles, even if there's been ups and downs in that arc of ESOPs. Within this 25 year period, what have been some of the best years? Are those best years recent ones? Are they back in the early 2000s or was it pre-pandemic? And where are we now?

Noelle Montaña (00:27:27)

Sure. Well, thank you. And it is a big year for S Corporation ESOP. So just a little bit of background. I was working on Capitol Hill for then Chairman of the House Ways and Means Committee, Bill Archer when the big 1996 tax bill was passed. And that is the bill that created the S Corp ESOP structure. So while Corey, 25 years before that, was working on C corporation ESOPs, there was an initiative to allow S corporations to be owned by an ESOP. And you can imagine that's a pretty complicated structure, right? When you're marrying a pass-through entity that's owned by a tax-exempt trust, a qualified retirement savings plan. So ESCA, the Employee-owned S Corporations of America was formed by a handful of companies that realized once they transition to this structure because of the tax benefits, because of what it would mean for their companies, it was critically important that there be a coalition or an association that would protect this structure. Because everyone knows what Congress creates, they could do away with.

And just because there's a lot of bipartisan support and there is a lot of bipartisan support for S corporation ESOPs, but that's because the community has been active for these 25 years educating members of Congress. So ESCA has grown in that time from 20 companies to about 200 member companies. Our companies range in industries from engineering to contracting, to manufacturing, construction, grocery stores, convenience stores, service industries, and they represent about 300,000 employee owners. And they range in size from companies that might be 50 employee owners to companies that are 40,000 employee owners and they get bigger. Just like what Cindy said and what Sean does, I mean, through mergers and acquisitions, our member companies are often acquiring small family-owned businesses where the owner doesn't have another path or wants its employees, his or her employees to become part of an ESOP. And we love that story of acquisitions.

We had one of our member companies who had acquired a smaller company, talked about a new, one of their new employees had said, "I used to work for a family-owned business and I never felt like family. And now I work for an employee-owned business and I feel like family." That's what we do. That's what we're all about, is our advocacy on Capitol Hill to ensure that the S ESOP structure is preserved and not negatively impacted by policy changes. And it's been really gratifying over these, I mean, you asked to assess the 25 years, I mean in general, from my viewpoint, which is the congressional viewpoint and what's been going on in the policy world. There have been threats. There have been things that we have had to educate members of Congress and advocate on behalf of S corporation ESOPs and say, hey, you didn't mean to mandate because of Enron that all employee-owned companies start diversifying out of employees owning stock in their companies. There needs to be an exception because S corp ESOPs are something different.

And so that's what we do. We're the eyes and ears and voice on Capitol Hill for S corporation ESOP so that our member companies and all S corporation ESOP companies can feel confident that they can be busy running their companies, growing their companies, hiring more employees because we're looking out for things that could be negatively impact. And it's just really exciting and meaningful to be able to tell members of Congress, hey, what you did 25 years ago, even if they weren't in Congress, then they like to take credit for it. This is working even better than you could have expected.

Talmon Smith (00:31:11)

Yeah, thank you. Thank you. It's really interesting to wrestle with this idea of, and I think I used this term before, symbiosis, right? People tend to be very skeptical of the idea that's something that can be unalloyed good or business in a certain situation could also be a win-win for that set of employees. And so to stick with that and drive down a bit here, I've been reporting for 18 months now at the very tense intersection of rising pay for workers and rising input costs for businesses. And we know that we had a plague and a war in Europe, both of which have not happened in quite some time, and that's certainly a source of non-labor input costs. And yet it is also true that what economists call reservation wages, the floor of the amount of pay that a worker will accept for a given job, that's gone up in a lot of industries. In some of those industries that you've mentioned actually, and you're open. And so if you could, and I know that this in a sense drifts a bit from corporate structure and some legal and policy advocacy into the realm of data wonkery, but I know that you are expert at both.

So in embracing that, lean in for us and tell us a bit about those rubber meets the road decisions where an employee may not see an ESOP as a fit for them, if that ever happens, and times when businesses decide against them, even if you think that it doesn't make business sense for them to do so.

Noelle Montaña (00:33:02)

Well, we work with a lot of experts. We work with NCEO, Corey's organization and look at a lot of economic data all the time. It was actually back in 2016 that Jared Bernstein, who now chairs the Council of Economic Advisers for President Biden, he looked at what ESOPs can do for a company. And particularly on the wage issue that you mentioned, we wanted to find out if ESOP companies were paying lower wages and if they were able to because of the benefit. Could they still attract workers because of this ESOP benefit that they were providing? And what we found and still found in studies that came after 2016, that ESOPs are very impactful on reducing wealth inequality because in addition to this incredible benefit, this retirement security and savings benefit you're getting from the ESOP wages are just as good at ESOP companies.

I think that speaks to the commitment that business owners have to their workforce. And that, I mean, we could talk all day with this panel about that from studies that show during the economic downturn of 2008, 2009 to the recent pandemic that these companies are in it for the long haul so they are looking out for their workers. They're looking out for their workers in terms of the wages they provide, the benefits they provide. The majority of S corporation ESOPs, in addition to offering the employer provided ESOP that they fund also offer 401(k). So they've got two retirement plans. They're also looking to retain their workers. We've heard so many incredible stories from our member companies, whether it was during the pandemic, and again, the economic recession back in 2008, that they hung onto their workers, they did what they needed to do. Whether it was reducing hours, whether it was just furloughing people for a little bit because they knew that the good times would come again, and their workers and their workforce were the most important things to maintaining the stability of that company.

So it's great that, I mean, from ESCA's perspective, not only do we have data that supports that, but being able to share just the anecdotes and what we hear from our member companies. I mean, most

of these companies with the industries that I mentioned, they were essential businesses. So during the pandemic, they were still out building the bridges, the roads, working in the hospitals. They were workers that did not have the luxury of working from home. I think their employers recognized that, increased wages where they could. And that just shows the value that employee-owned companies place on their employees.

Talmon Smith (00:35:38)

Thanks. Cindy, what do you make of all this? I asked you before we got started, whether Gardener's Supply and this employee ownership structure that you all have there, whether that is something that comes as a pleasant surprise to workers versus workers that actually sign up and apply because of their knowledge of employee ownership at the company. What share of worker do you see in that situation or both?

Cindy Turcot (00:36:13)

Yeah, I would say both. I would say that the majority of employees know that we're employee-owned, I would say probably not. We have a lot of hourly workers and what does that even mean? I think people don't necessarily know what that means. And so they're entering into a workforce that is just hopefully a very different work environment in terms of how we run our business and how involved they are, our staff meetings or how much we communicate. So I think that's where the connection, so I think they immediately see the difference when they see how they're treated and how they're oriented. One thing I'll speak to what Noelle said is that we were a company that was very much impacted by the pandemic in that we were all of a sudden the first week or two of... I remember that first week where we had expected 14,000 orders and we got 32,000.

And for us, it's all about, oh my God, what are we going to do? We don't have enough employees. And talk about a group of employees that leaned in and did whatever it took to manage a really difficult situation where we didn't have enough people, we didn't have enough product, and customers wanted help and they were scared and they wanted to grow their own food. And so that's where you see the power of employee ownership is how they responded. They came to work every day, even though a lot of people got to stay at home, they didn't get to stay at home. We were open, we had a warehouse, we had retail stores, and we were trying to help the customers. So I think that when they arrive and not only see how they're treated and how the participatory workforce works, but also now all of a sudden you get a piece of the company, you get a large percentage of your pay, at least at this point for us, in a contribution to the stock and the company you work for. We do pay well compared to others and we have really great benefits.

So the one thing that I wanted just to mention when we talk about retirement is that I think it's really important that we don't talk about ESOPs just as retirement plans because that doesn't resonate for someone who's not staying or they're young or that their intent isn't to be there for 40 years. It's a wealth move. And in 10 years, if they stay for 10 years and they have whatever, 30,000 or \$50,000, isn't that great? It doesn't matter whether they're there at retirement, they're still getting a pocket of money. I think how we talk to employees about that too is important so that they get it. And the more employees talk and the more our community responds to us being employee-owned, the more we are getting people that understand that we're employee-owned. So I guess that's the best way I'd answer it.

Talmon Smith (00:38:54)

Thank you. And sticking with the idea of this not just being, for lack of a better term, a sleepy sort of retirement vehicle, but we should not disparage retirement vehicles as sleepy, retirement vehicles are

important. It is true that ESOPs can be a form of wealth building. When we think about wealth and equality overall, I think all of us here are well aware that people of color in particular have struggled to build wealth over the past few decades, over the past few centuries actually. And so on a serious note, Sean, along with your colleagues at Aspen, Rutgers, and others have been pivoting to not only talking about how this makes business sense. But on a social level, on a pro-social level, how ESOPs can also be a way that we can not just lessen racial inequality in the data, which may cause some charts to look less egregious, but in a real material way, allow households, Black households, Hispanic households, other people of color to build wealth in a way that can really change folks lives down the road.

Sean-Tamba Matthew (00:40:07)

Yeah, no, so I think ESOPs especially can do this in two ways. One is in terms of preserving the wealth that minority business owners have helped to create with their companies over the years. Especially for those businesses that are certified as minority-owned businesses, their range of options for exiting their company can oftentimes be limited if they are reliant on their certification status to drive their revenue. And so what an ESOP can do is create a buyer where the effect of selling to a strategic or sell into a private equity company that won't be able to get that certification, the ESOP, especially if you can get to that same level of ownership that's reflected in the minority business owner through the ESOP in a loop through basis can be positive. There's some things that we're working on that we can touch on a little bit later as to help drive that home for a lot of minority-owned businesses especially.

The other piece of this is one that speaks to me even more is the fact that when you create employee ownership opportunities for people of color, you do have the ability to really significantly reduce the racial wealth gap. There's this great report that the Aspen Institute along with Rutgers University and its Institute for Employer Ownership and Profit Sharing and the Democracy at Work Institute pulled together, I think it was a couple years ago now. That summarizes a lot of the research that's gone on over the last several years as it relates to how employee ownership can address the racial wealth gap. For instance, employer owners of color have 30% higher wages than non-employee owners of color, or seeing that employee ownership does significantly reduce the racial wealth gap. I think that the trouble that maybe policymakers and others might find is, well, how do you bring this to scale?

How do you bring this solution to people of color who are employees, who don't have their own businesses? Targeting the minority business owners, that's one great way. But the question is, well, how do we target employees and companies that have significant minority populations? And so we've been fortunate to work with at our firm, a group called Apis & Heritage Capital Partners. Brand new, two new fund managers who were college classmates and friends at Morehouse, Todd Leverett and Phil Reeves raised an oversubscribed fund last year that closed at around 58.1 million dollars. And what they're doing is targeting companies that have significant minority workforces. And so they've had two investments so far. One is a landscape contractor out in El Paso, Texas. The other is a plumbing company out in Denver. Both companies have workforces that are in excess of 90% Latin American. The contractor in Texas has increased the number of employees since the business transition to a hundred percent ESOP ownership through the financing provided by A&H and they're facilitating it.

What they've done is create this new wealth opportunity. It's been very appealing, it's been able to retract and retain people who otherwise would not have been working with that company before. And so they're dealing with the issue at the core targeting these businesses, both of which were Caucasian-owned beforehand. Now they're minority-owned businesses, both with minority leadership now in place that can help build wealth in their communities for people of color. So that's one example of how we could get this move forward and across the country.

Talmon Smith (00:44:30)

We've all said a bunch of very nice things about ESOPs, including me so far. I just want to take a moment to stress test this idea, this movement, this corporate structure. There are times where I've done some research and do come across these ESOPs as awfully squeaky clean, and yet there has been some tension under the surface for certain companies. For example, Publix, which is not a 100% ESOP as far as I can remember based on a little bit of reporting I did. But it is a large share of the company is technically employee-owned. And yet Publix has been receiving a lot of backlash from employees recently for having median employee salaries that are below \$25,000 and a CEO to median pay ratio of over 140 to one. And the Tampa Bay Times, as I was able to read it, notes that part of that median salary being so low is because that includes some part-time and seasonal workers.

And yet nevertheless, it shows that it seems employee ownership, ESOPs themselves are not necessarily a silver bullet for society at large, much less finding ways for capital management and labor to live in some level of harmony. So if I can turn back to you, Corey, what am I getting wrong if I'm getting something wrong there about maybe the ability for employee ownership to be a salve or give cover for businesses that otherwise are still operating in a way that some folks, particularly progressive folks might not consider progressive. And what are the ways that you see pushback that is fair, and then the sort of pushback that actually is just a form of misunderstanding?

Corey Rosen (00:46:38)

So I think part of the problem is, particularly amongst progressives is, and I'm one of those, but part of the problem is lading ESOPs with expectations about every social goal that you have. They need to be democracies. They need to pay everybody extraordinarily well. They need to contribute to liberal causes, on and on and on. And that's not fair. That's not an expectation that's reasonable of companies. You look at a company like Publix and I don't know, but I assume that they're like most other grocery chains and pay is not very good in the grocery industry generally. So I'm not surprised that their pay is at that level. On the other hand, Publix consistently is rated in one of the best a hundred companies to work for, which is based on surveys of employees saying it's one of the best hundred companies to work for. And employees who've been there for a while have accumulated tremendous amounts of wealth.

Is it perfect in someone's definition of perfect? Well, lots of companies aren't going to meet those criteria. One of the common things that you see, for instance, asked about ESOPs is, why aren't they more democratic? Why don't employees sit on boards and make decisions? What we found in our research is that that's something that progressives think is important, but employees don't. And that doesn't actually turn out to make any difference when you do do it and how well a company performs. We surveyed employees, thousands of employees to see what mattered to them about being an employee owner. Being on the board of directors or voting or shares was not one of them. What did matter to them a lot was how much influence do I have in the way that my job is done every day, can I suggest ideas on new marketing ideas, on new products, on different processes, and will somebody listen to that?

And it turns out that the companies who do that have more satisfied employees, have longer retention and make a whole lot more money. So it's really a win-win situation to do that. And that's where employee ownership companies I think have really excelled. If you go to our conference for instance, you're going to see panel after panel about how we get employees involved in making decisions at the work level and how impactful that is. I wrote a book called *Beyond Engagement*, and the first sentence says, "It's simple. The best companies are the ones that generate the most ideas from the most people about the most things." And think about that. If you're a company and you can generate the way that, for instance, Hypertherm in New Hampshire does two usable ideas per employee per year, you're going to be a whole lot better company. That's really what we need to expect from ESOP companies. Not

every company does it, but they're much more likely to do it than other companies. So are ESOPs perfect by whatever definition you want to use? No, but they're sure a whole lot better than the alternative.

Talmon Smith (00:50:09)

Sure, sure. And there's certainly a fair argument for it. I think there are parallels that you've been thinking about as well of it's a good thing. It seems that we have so much bipartisan energy or if not energy, just sort of latent support for ESOPs. You talked about the track record in Congress being remarkable. It certainly doesn't fit the narrative of good luck that has dominated so many other issues. And yet I wonder, and I'll ask of you and then ask this of some other panelists, whether you ever fear that if you become too successful in your sort of evangelizing of ESOPs, that somehow like everything, like mask just did and vaccines just did, it gets politicized and therefore loses a base of support. So I'll start with you, but I'll be sure to ask others about their take. But do you ever fear that, that you actually might lose in victory?

Corey Rosen (00:51:18)

No, never. I would be delighted if we got to that point. No, I'm not worried about that one at all. No matter what forum you're asking it in, whether it's the Senate or house or state legislatures or the various opinion polls or polls from companies that they would prefer to buy from other companies that are employee-owned, no matter what group you're asking, employee ownership is viewed in a remarkably positive light. So more is better. And one of the things that that might accomplish is more political critical mass, and we have a long way to go to get there. So no, I'm not worried about that. I'm worried about not enough people doing it because this is really the right solution for thousands of businesses covering millions of employees. And Sean was absolutely right on when he said that the main reason you don't see more of it is not that they don't work, it's that when people go to their business advisors and they say, I'm thinking about business transition, what do I do? They are not likely to hear, oh, you should think about an ESOP.

And as Sean also said, that's often because it's not in their interest to sell an ESOP to them. They'd rather do something they know how to do that'll make them a lot more money. That's a big hill to climb. We're hoping some of the recent legislation that encourages outreach on ESOPs from various state and federal levels will be helpful in doing that.

Talmon Smith (00:53:00)

Noelle, if you could hop in and dig in deeper for us about some success stories and some stories of challenge in evangelizing ESOPs having more uptake. I was really surprised to learn and a bit embarrassed that I did not know about it, that in certain cases for some businesses, if you work your way towards 100% employee ownership and become an ESOP, you can actually greatly, greatly reduce your tax bill while also providing these pro-social benefits to your employees and so the sort of community of the business. And yet clearly getting there, whether it's through gaps of knowledge or strategic hurdles is a thing. So digging a little bit deeper into the weeds for us here, since I think everybody at this point, if they weren't before, knows the basics. Get into the weeds for us here about what determines success or not.

Noelle Montaña (00:54:03)

Right. As you said, it's an incredibly intricate tax structure, but it was intentional. I mean, they're in no way are they loopholes. Congress deliberately designed the S corporation ESOP structure to encourage employee ownership and retirement savings through this complicated structure with significant tax benefits. And again, not a loophole. The taxes are being paid as they are with any other qualified retirement savings plan. When the employee owners retire, start drawing down money from their ESOP, or if they've rolled it over to an IRA, they're paying individual income tax rates. But it was designed that way because the companies needed that capital to grow the business and to pay for those retirement costs. So it is complicated. It takes a lot of education. And I think what's particularly important to continuing our efforts to build support in Congress is to make our message current. What are people talking about? What are the issues of the day?

So recently, it's been the great resignation and finding enough workers and are employees happy with where they're working? Are they all quitting in mass? So a new study, and I know I keep bringing up studies and they're all on our ESCA website. I'll include that in the chat. But we're going to release a new study that NCEO has been working on for us that shows the quit rates and the layoff rates are much lower. So it's very important that we keep the current messages, what's going on, what are policymakers talking about and how do we relate ESOPs and the benefits of employee ownership to that. I mean, members of Congress were thrilled to meet with us virtually during the pandemic and hear about what our companies were doing to keep their businesses going, to keep their employees, to keep contributing to the local economy.

You asked about why there aren't more ESOPs, and Jared Bernstein also did a study for us on that. And it's a lot of things, but it's primarily education and what you mentioned are advisors offering this to business owners looking to transition out of the business. There aren't enough advisors that are saying this is a really strong viable alternative. Plus it's hard. It's expensive. It's not the easiest way for a business owner that just wants to cash in. It takes a very committed business owner to go through this complicated transaction to start selling shares to the ESOP. Again, not the easiest way out. They have to really be committed. And those are the business owners that you see making this transaction because they're committed to keeping their workforce intact, not seeing their business just be sold off, split into parts. They want to keep it local, they want to keep it together. And that's why we firmly believe that Congress should continue to encourage and promote and protect this structure.

Talmon Smith (00:56:51)

Cindy, as our on the ground ESOP correspondent here, have you seen the hopes that Noelle speaks about here? The lower quits rates, lower layoff rates. I mean, one of the things that I've been doing in my work is really asking, okay, much of business, much of economics is about trade-offs. I've been trying to push my colleagues, my econ Twitter, just my general world to think a bit harder about, okay, well what's a presumed trade-off? What is a trade off that, whether it's macro, micro, and financial markets, otherwise, what's a trade-off that maybe we just presume is there and see is inevitable? But actually we just never stress tested whether a more challenging but ultimately rewarding dynamic is possible. We've just seen that we got down to 5% Black unemployment for the first time, and yet it's in a situation where it's deeply threatened by an oncoming recession that could wash a lot away, at least temporarily.

And so that brings me to the question of can ESOPs in a way that, obviously as Corey told us, not be a silver bullet for all of society's problems, but do you think if there were more companies that were set up like Gardener's that there'd be less volatility in terms of hiring, employee retention and so on and so on? And to the extent you're comfortable sharing with us, what are some of those challenges that Gardener's did see maybe during the pandemic when obviously there were a lot of good reasons to be scared of being essential worker?

Cindy Turcot (00:58:36)

Well, that would be true for any company. So as an employee-owned company, the only major risk you have to think about is that you are buying yourself out all the time. You have to have the funds to be able to over time pay for yourself. The employees are not contributing their own money to be employee-owned. The company is contributing the money. So you have a case where your stock post goes up a lot because you've done well. Now, the amount you owe to the terminated participants that are leaving for whatever, retiring, diversifying, whatever, you have to have a constant cash flow to be able to keep the system rolling. And so that is an important piece for people to understand as they think about it. So that would be one of the challenges that you have to think about as you become a more mature ESOP.

Now, that's just the way it works. You have to be prepared and you have the tax incentives of not paying tax, federal tax, and that's what helps, can help fund this methodology that's been created and to keep the whole system moving. But that's all about planning and it's about understanding what it means, and it's about thinking out 15 or 20 years, what does it look like so that we can keep our businesses rolling infinitely and not having to sell because we haven't thought through all of the issues. So that is just an important piece. I'll just add one more piece then, in terms of opportunities that we talked about, is that we now have the opportunity. And having been one of the more successful state centers over the time with the Vermont Employee Ownership Center, we have a huge opportunity with the Work Act bill that just went out for money that's going to come into the states to be able to help them. 50 million dollars to help boots on the ground, help companies know about employee ownership.

That's what we need, is we need more people to be talking about it and we need boots on the ground helping companies know how to work through the challenges of thinking about an ESOP and even understanding and who should they go and meet with, what are the ESOP lawyers, all of that sort of thing. So there's that piece too that really is a big opportunity for us to have more employee ownership.

Talmon Smith (01:00:47)

Thanks, Cindy. Sean, I want to turn back to you as we kind of round the bend here. Going back to the financing space. Obviously, financial conditions can tighten or loosen in any given year. Sorry about the folks doing yard work, folks. Jordan, hopefully you can still hear me okay. So that means I should kick it to you even sooner, Sean. As we look at the lending environment right now, sort of zoom out and imagine credit that will eventually loosen to a more accommodating environment sooner rather than later. Do you think that the ESOP space will continue to be, not dominated, but have a large share of investors? Be sort of impact investors, sort of social minded investors. What opportunities do you think there might actually be for more traditional private equity investors and larger scale institutional investors to get involved in the ESOP game? What would need to happen to accelerate that?

Sean-Tamba Matthew (01:01:54)

I think that we're in a really interesting time as it relates to private capital funds that are coming to bear to take a lot of the dry powder that's out there and to deploy them in ESOP transitions. So as I mentioned, Apis & Heritage Capital Partners, they just had their fund, that was driven a lot by your traditional impact investors. Folks like Skull, Rockefeller and whatnot that really help. And Robert Wood Johnson that really helped fund their fund. I think for folks like Apis & Heritage, like the Toronto group which is The Miller Group that we've worked with that's raising a fund. You've got other folks like Social Capital Partners out in Canada that's actually I think driven a lot by the Canadian pension plan. So you got all these sort of new funds that are coming online that are creating the test case for why employee ownership transitions are essentially an investment class that institutional and other investors should look

to invest in to get competitive and many times market rate returns to help finance and facilitate ESOP transitions.

I think you're also seeing stuff on the policy side. There's a lot of discussion about hopefully new legislation that will come out that will help loosen up SBIC funding and to have it done in a way that obviously protects ESOPs as what they are, which are retirement plan for the employees, but a corporate finance technique that companies can use in a sustainable way to help facilitate more employee ownership transitions across the board. I think there's a lot of optimism out there as it relates to these sort of new capital providers that are looking to make employee ownership investments throughout the country.

Talmon Smith (01:03:55)

Thanks Sean. So Corey, we have a great question I think that you just engaged with actually in the chat. I want to say it out loud for the rest of everybody. Before I get to the question there and sort of a broader Q&A as we wrap up, I want to expand upon something that Sean got out there, which is finding ways to attract capital. We do not live in a command and control economy. We live in a market economy, a market society, and it's been interesting that there's been a bipartisan, if not, rallying towards that idea and acceptance of it just as the world that we live in, the water that we swim in. I mean, for years and years, climate advocates focused on a sticks approach rather than a carrots approach to climate change. We saw with the IRA that carrots absolutely won out.

Of course that made some folks uncomfortable that there weren't enough strings attached to some of the funding to encourage and attract capital and subsidize it in some cases, and yet that is a route that people in Congress took. What sort of funding, what sort of subsidy as well as education which we've all talked about here might be helped at a federal level, which really has some sort of bazooka that could change the environment? States do what they can, but obviously the federal government is the biggest game in town. What are folks in Congress doing or not doing? What are folks maybe even in treasury, the commerce department doing or not doing to help here, the case of ESOPs?

Corey Rosen (01:05:27)

There is a new program through the State Small Business Credit Initiative, which may be helpful to some ESOPs in some situations. I think it's a relatively limited value though. What I think really would help, and Sean sort of made reference to it as a bill that hasn't been introduced yet, but will be. That would solve what I think is the remaining biggest financial issue for ESOP transitions, which is if I want to sell my company to an ESOP and I want to sell most or all of it, I can get a bank loan maybe for some portion of that, but I'm not going to get a bank loan for a hundred percent. So the rest I finance through what's called a seller note, I'm going to take money over time with interest. Well, that doesn't work for me sometimes. I'm 72 and I want to sell and I don't want to wait, so I'll sell to somebody else.

So what this would do is it would provide the same kind of federal funding that's available for all sorts of other development projects and research projects and so on that would say, if you will provide us, if the government will create these employee business investment corporations that will guarantee some portion of that loan and that would make the bank loan more than they otherwise would. So I think that's a really critical piece that if we can get that to happen, you're going to see a lot more ESOPs happen. So watch for that at the Employee Ownership Investment Act and we hope we'll see that, see the light of day pretty soon.

Talmon Smith (01:07:16)

All right, so moving on to some questions to dig a bit further and before we wrap up, see what things may look like going forward. For Cindy, what risk and opportunities do you see with private equity becoming more involved in employee ownership? Obviously for some private equity is just a scary word unto itself.

Cindy Turcot (01:07:44)

I mean, certainly it's gotten more news about it, and so that's a good thing about employee ownership. But they are bringing the money in and so a percent of the company is employee-owned. But I believe my understanding is that the goal is then you're going to sell it and those people will make money that were there for that segment of time. But then if the company is not going to stay an employee-owned company in the long term, that doesn't help any future employees. So I have a concern about it being a one and done, that group including the private money is going to make money when it sells, and that's that. Corey, do you agree with that?

Corey Rosen (01:08:25)

That's absolutely right. The employees are only getting about 5% of the company. It's getting a lot of publicity what they're doing and some other company of the same size becomes a hundred percent employee-owned and it's nah. So it's not man bites dog the way that the private equity is. It's great what they're doing, but it's a shadow of what ESOPs are doing.

Cindy Turcot (01:08:54)

Right. It's not long term for employee ownership.

Talmon Smith (01:08:58)

Sean, can you talk about issues around federal contracting with ESOPs, the preferences and challenges around it? Like we said, the government is the biggest game in town. How is federal contracting pulled into this issue?

Sean-Tamba Matthew (01:09:15)

So as it stands now, if you're certified as a woman-owned business or veteran-owned business or minority-owned business for federal contracting purposes and you sell to an ESOP, you are not going to be able to continue that certification going forward because that would require a change in federal law. One thing though, in that space on the state level, because a lot of state contracting organization or state governments not only rely on the federal contracting certification, but they also rely on private certification organizations. And those private certification organizations also serve as a vehicle for major corporations. So I sit here in Philadelphia, you're thinking of your Comcast of the world and whatnot, they rely on the private certification organizations to drive supplier diversity. Those private certification organizations have very different viewpoint from the federal government. They're very much open to that. So with respect to WeBank for instance, they have issued requirements and regulations as to how you certify a woman-owned business by looking through to the ESOP.

I want to thank Corey and Tim Garbinsky, his client, not his client, but his colleague over at NCEO who recently helped our team and client of ours who was actually going through an application/proposal process with the National Minority Supplier Development Council to help create and craft those guidelines for minority-owned businesses for a company that we're looking to get certified here. I'm actually speaking at NMSDC local affiliate conference later this week. The reception there is very positive because of the two issues that you addressed. You addressed the issues with the minority business owners and you addressed the opportunity for the people of color who are working for these companies going forward. And so that creates, I think hopefully a groundswell of support that can help drive and push federal legislation down the road and also helps people qualify for potential state contracts that are out there that may be able to ease up on companies that are either diverse or woman-owned and whatnot.

Talmon Smith (01:11:35)

Thanks, Sean. I think about this conversation we've had and it's been really great, I've already learned a lot. Thank you all. And I see a through line maybe because I inserted it in part of sort of parallels to the need to quickly with urgency, find ways to solve a really big problem. In this case, finding fair ways for employees, for workers. Most of us are workers, not bosses, to build wealth in a way that still makes sense within a market system. The IRA, as I've mentioned a couple minutes ago, is trying to do that through a robust carrots heavy in the carrots and sticks paradigm approach. And it seems like many of the ideas that have come across throughout this conversation are in that carrots department. Corey, you're sort of the godfather in some sense of this issue. To the extent there are any parallels to the fight to ramp up for climate change adaptation, et cetera, a lot of those goals are spoken of in 10 year sort of increments. So let's imagine it's 2033, if we were able to go all in on ESOPs as an economy, what would that hopeful scenario look like where you see substantial success?

Corey Rosen (01:13:01)

We've tried to model this. I think it's reasonable that you could double the number of employee owners over another 10 to 15 years.

Talmon Smith (01:13:14)

Well, with that, is there anybody else that had a closing remark or idea or something that we left out? All right. Well, with that, thank you all. I want to toss it back over to Matt who opened up for us to give some closing remarks. Once again, thank you to Aspen for having me. Thank all you for joining me and hopefully I see all of you, if not virtually, in person again sometime soon.

Matt Helmer (01:13:41)

Thanks so much. Great job, man. Thanks to Cindy, Corey, Noelle, and Sean. Great conversation. We could have went on for a lot longer time, but we'll have to have you back again. Please stay tuned for more information on our next event coming up on May 10th, that's a book talk with Zeynep Ton on her latest book, *The Case for Good Jobs: How Companies Bring Dignity, Pay, and Meaning to Everyone's Work*. Stay tuned as well for an exciting announcement we're about to make here in the next week or so about some more employee ownership panels that we'll be having in June. Thanks very much to Maureen Conway for her dedicated support and leadership on these conversations, to all my colleagues, Colleen, Amanda, Tony, Maxwell, Joyce, Merritt, Victoria, and Sinin. And huge thanks to Tony Mastria and Nora who are really an irreplaceable part to making these events happen.

Thanks so much to our audience for joining and sharing your questions and comments. Glad to see it was such an active conversation. Please take a moment to respond to our quick feedback survey, which should open in your browser as we close this out. You can always email us to at eop.program@aspeninstitute.org. We'd love to hear your thoughts and comments. And again, thanks all for joining us and thanks again to this wonderful panel and to Tal for moderating the conversation. Take care.

Corey Rosen (01:14:53)

Thank you.

Sean-Tamba Matthew (01:14:56)

Thank you.

Noelle Montaña (01:14:57)

Yeah.