Rebuilding the Middle Class through Employee Ownership

June 15, 2023

Description

Stagnant wages, the rising cost of living expenses, and other factors have led to a shrinking middle class and growing income and wealth inequality in recent decades. Workers in employee-owned businesses, however, have often fared better than their peers on a range of measures related to economic well-being.

In this conversation, speakers discuss the latest research on wealth inequality and the potential of employee ownership to help rebuild the middle class. It features opening remarks from Richard Freeman (Herbert Ascherman Chair in Economics, Harvard University), Douglas Kruse (Distinguished Professor, School of Management and Labor Relations, Rutgers University), and Fidan Kurtulus (Professor of Economics, University of Massachusetts Amherst), followed by a panel discussion with Veronica Ortiz (Business Systems Analyst Manager, Worker-Owner, Web Industries), Stephen Smith (Chairman, President, and Chief Executive Officer, Amsted Industries Incorporated), Steve Storkan (Executive Director, Employee Ownership Expansion Network), Tomás Durán (President, Concerned Capital), and moderator Abha Bhattarai (Economics Correspondent, The Washington Post). For more information about this event — including video, audio, transcript, speaker bios, and additional resources — visit: https://www.aspeninstitute.org/videos/rebuilding-the-middle-class-through-employee-ownership/

About

This discussion took place as part of the Employee Ownership Ideas Forum, co-hosted by the Aspen Institute Economic Opportunities Program and the Institute for the Study of Employee Ownership and Profit Sharing at Rutgers University. This two-day event brought together leading policymakers, practitioners, experts, and the media for a robust discussion on how we can grow employee ownership for the shared benefit of American workers and businesses. Learn more at as.pn/eoforum.

The Aspen Institute Economic Opportunities Program advances strategies, policies, and ideas to help low- and moderate-income people thrive in a changing economy. Learn more at as.pn/eop.

The purpose of the Institute for the Study of Employee Ownership and Profit Sharing at Rutgers University is to study the various models that have emerged and will emerge of employee ownership shares and profit shares in the corporation and society of the United States and around the world. Learn more: https://smlr.rutgers.edu/faculty-research-engagement/institute-study-employee-ownership-and-profit-sharing

Speakers

Richard Freeman

Herbert Ascherman Chair in Economics, Harvard University

Richard holds the Herbert Ascherman Chair in Economics, at Harvard University. He is a Research Associate at the NBER, and is currently serving as Faculty co-director of the Center for Labor and a Just Economy at the Harvard Law School. Professor Freeman is a Fellow of the American Academy of Arts and Science and the AAAS (American Association for the Advancement of Science). He is currently serving on the AAAS Initiative for Science and Technology. Freeman received the Mincer Lifetime Achievement Prize from the Society of Labor Economics in 2006. In 2007 he was awarded the IZA Prize in Labor Economics. In 2011 he was appointed Frances Perkins Fellow of the American Academy of Political and Social Science. In 2016 he received the Global Equity Organization (GEO) Judges Award, honoring exceptional contribution towards the promotion of global employee share ownership. Also in 2016, he was named a Distinguished Fellow of the American Economic Association; the award citation describes Richard as "an enormously innovative labor economist who has made pioneering contributions to virtually every aspect of the field."

Professor Freeman's research interests include the job market for scientists and engineers; the transformation of scientific ideas into innovations, Chinese and Korean labor markets; the effects of AI and robots on the job market; and forms of labor market representation and employee ownership.

Douglas Kruse

Distinguished Professor in the School of Management and Labor Relations, Rutgers University

Douglas is a Distinguished Professor in the School of Management and Labor Relations at Rutgers University, a Research Associate at the National Bureau of Economic Research (Cambridge, MA), and a Research Fellow at the IZA Institute for the Study of Labor (Bonn, Germany). Dr. Kruse served as Senior Economist at the White House Council of Economic Advisers in 2013-2014. He received an M.A. in Economics from the University of Nebraska-Lincoln and a Ph.D. in Economics from Harvard University. His research has focused on the employment and earnings effects of disability, and the causes, consequences, and implications of employee ownership and profit sharing.

Fidan Kurtulus

Professor of Economics, University of Massachusetts-Amherst; Co-Director of the University of Massachusetts Center for Employment Equity

Fidan is a Professor of Economics at the University of Massachusetts Amherst and Co-Director of the University of Massachusetts Center for Employment Equity. She has published extensively on a variety of topics including broad-based employee share ownership and democratic workplace practices, gender and race diversity at U.S. workplaces, and the impacts of U.S. Civil Rights legislation and anti-discrimination regulation. She is a former Women and Public Policy Fellow at the Harvard Kennedy School of Government and a Wertheim Fellow at Harvard Law School. She has won numerous awards for her research including a Beyster Fellowship on Democratic Workplaces, and an Early Career Research Award from the Upjohn Institute for Employment Research. She has been awarded grants from the National Science Foundation, the Kellogg Foundation, and the Arnold Foundation, among other sources. Professor Kurtulus received her A.B. from the University of Chicago, graduating with high honors in economics. She obtained her Ph.D. in economics from Cornell University.

Veronica Ortiz

Business Systems Analyst Manager & Employee-Owner, Web Industries, Inc.

Veronica is Web Industries' Business Systems Analyst Manager, headquartered in Marlborough, Massachusetts. Throughout her near 19-year tenure at Web, Veronica has served in many different roles, but always, and most importantly, as an engaged employee-owner. In her current role, she supports process and system improvements throughout the organization via technical analysis and facilitation of fellow employee-owner teams. Veronica is a passionate ambassador of employee ownership and Web's values. She is driven to improve and grow the business through collaboratively working with others to enhance the employee-ownership experience and the overall effort to build shared wealth. Veronica has served on several employee ownership teams within Web Industries, participated in many employee-ownership conferences, and previously served on the board of directors at the National Center for Employee Ownership.

Stephen Smith

Chairman, President and Chief Executive Officer AMSTED Industries Incorporated

Stephen is Chairman, President and Chief Executive Officer at AMSTED Industries. Mr. Smith joined AMSTED in 2005 as president of Amsted Rail, became general counsel in 2007, was appointed President and Chief Executive Officer in 2017, and added the role of Chairman of the Board in 2018. Prior to joining AMSTED, from 1999 to 2005 Mr. Smith was general counsel and president of the shared services operations in North America of GKN plc, a FTSE-traded UK diversified engineering company; and from 1991 to 1999 was vice president, secretary and general counsel of The Interlake Corporation, an NYSE-traded diversified manufacturing company.

He began his professional career in 1982 at the Chicago law firm of Hopkins & Sutter (since merged into Foley & Lardner), where he was a corporate partner and chairman of the corporate transactions group. Mr. Smith earned an A.B. degree in political science from Wheaton College (Illinois) with highest honor, and his J.D. degree from The University of Chicago Law School. Mr. Smith served as Board Chair of the Grant Park Music Festival in Chicago from 2017 to 2021, and as Board Chair of Employee-Owned S Corporations of America (ESCA) from 2014 to 2017. He is a member of the Economic Club of Chicago and Commercial Club of Chicago. He is a past member of the Wheaton College Board of Visitors and the Visiting Committee of The University of Chicago Law School. Mr. Smith is a member of Covenant Presbyterian Church in Chicago. He previously served on the Board of Elders at Immanuel Presbyterian Church in Warrenville, Illinois, where he chaired the Finance Committee. He lives in Chicago with his wife Linda. They have three adult children and two grandchildren.

Steve Storkan

Executive Director, Employee Ownership Expansion Network

Steve is the Executive Director of the Employee Ownership Expansion Network and board member of 7 State Centers for Employee Ownership across the country. Steve has been involved in the employee ownership industry for over 25 years, most recently as the Director of ESOP Administration for Alerus Retirement and Benefits where he worked closely with businesses in the creation of an ESOP and the technical administration/compliance required in subsequent years. Steve spent 11 years as a member of the Board of Directors of the Minnesota-Dakotas Chapter of the ESOP Association where also served as Chapter President and VP of Government Relations. Steve holds a Certified Financial Planner (CFP®) designation from the University of Minnesota State Mankato.

Tomás Durán

President, Concerned Capital

Tomás has more than 15 years of economic development experience in low income communities of Southern California. He applies his finance, new market tax credits, and redevelopment skills to develop creative and innovative economic development solutions for private businesses. Prior to this role, Tomás worked as a Program Manager for the Whittier Redevelopment Agency and Vice President of Real Estate for Genesis LA Economic Growth Corp. In addition to CC, he teaches a class as a part time instructor for the Price School of Public Policy at the University of Southern California. Tomás also serves on the board of Common Future., the New Market Tax Credit Community Advisory Board for Dudley Ventures Community Investment and is a fellow in the Aspen Foundation's Job Quality Fellowship.

Tomás has a master's degree in Planning from the University of Southern California.

Abha Bhattarai (moderator)

Economics Correspondent, Washington Post

Abha is the economics correspondent at The Washington Post, where she writes about housing, jobs, inequality and workers' issues. She was previously the Post's retail reporter and won a Gerald Loeb Award for her coverage of essential workers on the frontlines of the pandemic. Abha is a graduate of Northwestern University.

Transcript

Maureen Conway (00:00:00)

All right. Well, I'm just going to start and talk and eventually people will come on in. I'm Maureen Conway. I am a vice president here at the Aspen Institute and Executive Director of the Economic Opportunities Program, and as I said, it is my delight to welcome you today to of the Employee Ownership Ideas Forum, a wonderful place to meet other people and chat, as we are already seeing this morning, and share common interests. It's also my pleasure to thank my colleagues at the Rutgers Institute for the Study of Employee Ownership and Profit Sharing for their partnership on this event, and I want to take a moment before I launch in to also thank my team who has been so helpful in pulling this all together. We wouldn't have an event without them. So, I really want to thank Matt Helmer, Sining Young, Joy Moore, Tony Mastria, Francis Almodovar, Maxwell Johnson, Amanda Fins, Merrit Steuven, Bryn Morgan, Maya Smith, Nora Heffernan, Joyce Klein, and Lauren Starks for their help in putting this event on. Takes a lot of folks, so I really just want to give them a round of applause. So, thanks to them.

So, for those of you who are able to be with us in person or virtually, I hope you enjoyed yesterday's conversation and I hope you enjoyed today's as well. I also want to thank our supporters for this event, the Beyster Foundation for Enterprise Development, the J. Robert Beyster Endowment at Rutgers School of Management and Labor Relations, Prudential Financial and JPMorgan Chase and Company. We have an amazing day in front of us. We're going to start this morning with two panels, one that's going to really look at the potential for employee ownership to strengthen the middle class, and then we'll follow that with one looking at race and gender equity.

For those of you who are here today, we're then going to have some private breakout conversations because we really do want to engage you all in this conversation and so you have a handout, but I'd like you to be thinking about some of these questions this morning as we go through so you can be thinking about what you want to bring to those conversations when we get there. So, we're going to be talking about what is missing from the discourse and narrative on employee ownership, what additional information, research topics, issues or public conversations such as the one today would be helpful, what new audiences and stakeholders we should be engaging and the role you see them playing and ideas maybe for reaching them.

For those of you joining us virtually, we'd love your thoughts on these questions as well and I think we've dropped the handout in the chat so you can see these questions and there's many ways you can get in touch with us to share your thoughts, including just putting your thoughts in the chat. After lunch, we're going to wrap up with two more panels of exceptional leaders and speakers. We'll discuss innovations in employee ownership early this afternoon and then close out the day with a conversation on employee ownership and how it aligns with our American spirit and values and how it can be a stronger force for really driving our economic competitiveness and innovation, but also for really helping us live with the values we aspire to as a nation. So, that's how we'll close and then we'll celebrate.

So, then we get through it all and we celebrate with a reception on the seventh floor. So, I hope everybody stays through for that to celebrate with a glass of wine and some more time to chat informally at the end of the day. Our panels today have a little different feel to them. We're fortunate to have a number of research fellows from Rutgers Institute for the Study of Employee Ownership and Profit Sharing joining us. So, we're going to have a couple of them open with their perspectives on their research before each of the panel discussions. Again, we'll try to include some Q&A in the panel discussions because we really do want to include everybody in the conversation.

Okay, last thing before I hand it over to Joseph. I need to go through a few logistical items for our virtual audience. So, everyone in the virtual audience is muted, but you can use the Q&A button at the bottom of your screen to submit and upvote questions. We'd love to hear from you. We also encourage you to share your views in the chat. If you have ideas, examples of work that you're doing related to today's discussion, please introduce yourself and share them. We encourage everybody in the room online to tweet about the event. Our hashtag is "talkownership."

If you have technical issues during the webinar, you can message in the chat or email us at eop.program@aspeninstitute.org. The event is being recorded and will be shared via email and posted on our website and closed captions are available. Please click the CC button at the bottom of your screen if you would like to use them and that is my opening announcement. So, Joseph, now I'll hand it over to you.

Joseph Blasi (00:05:09)

Thank you, Maureen, and again, I'd like to express my appreciation to Aspen. Aspen has been a fantastic collaborator and to the Beyster family and Prudential and JPMorgan Chase for your support. I'd also like to specifically thank the members of the Rutgers team. We've had a team of 10 made up of Rutgers and Aspen workers working on this for four months. So, Jack Moriarty, Bethany, Dennis, Chris, Michael, Adria Scharf, and Douglas Kruse who worked on the research brief. So, we're featuring the research fellows from the Institute's fellowship program. Over the last 15 years, Rutgers has appointed 15 to 30 research fellows every year to try to develop this field and you'll get to meet a lot of them during the day.

It's my pleasure to introduce Abha Bhattarai from the Washington Post. She's an economics correspondent at the Washington Post. I have read many of her fantastic pieces and she will lead the panel today, which we made up of Richard Freeman from Harvard, Fidan Kurtulus from the University of Massachusetts, Tomás Durán from Concerned Capital. Tomás, would you please come up? Steven Smith from Amsted Industry. Steven, would you please join us, And Steve Storkan from the Employee

Ownership Expansion Network. Our colleague Doug Kruse is running a little late and he will just join the panel when he arrives. Abha, I'm turning it over to you, your capable hands. Thank you very much.

So, Richard, if you want to come up here and kick us off, that'd be great.

Richard Freeman (00:07:16)

Okay. Hi everybody. I had prepared an extraordinary PowerPoint about employee ownership, just wait till you hear the rest, in Calabi-Yau space, which is part of a multiverse of physics, and unfortunately, people said, "No, that would not do for this group." So, I'll have to give a little different type of talk. First, I think it was a great idea to have yesterday's session before the research session because seeing practitioners learning their problems they're having in the field, learning what goals they have really is something that every research person should respond to. We should be doing things. Originally, Joseph had said to me, "Oh, talk about all the good that we find in the research." There's no point by saying that. You heard that from every single person.

The interesting part of it I think is the mixture between the statistical data that allows one to generalize and the individual qualitative things about this company did this, that company did that, and that is a tough business and research to combine those two together and this is one of the places I think that's being done best. Joseph also made another comment yesterday. He said, "Gee, every five years people want us to reproduce the same results," and I think actually there's great virtue to that. The social world is not like the physics world. The electrons are always electrons. They've been electrons forever. We are people. Things can work in a society with one technology. They can work in one society and not in another society and so it is actually important to continually be reassessing with new data of things that stand up.

In this field, Joseph was absolutely right. The results, they're stronger. There's more statistics. There's more this and that, but they stick. They've lasted. The other comment I want to make about the research activities is that we always are talking about averages. So, it's a 2% productivity increase that we see in some of the data. There's always a dispersion. There's always around that number. The really positive part of the research that's been done in employee ownership is that in that dispersion, it turns out to be reasonably balanced in the following sense. In some research areas, people are incredibly willing, and we do want to see good results, but that often means that you can't publish bad results. Referees will go over you… "There's got to be something wrong if you do not find a positive outcome."

So, what they normally ask for in the research is that it be a reasonably normal distribution. There's the mean, the average, and there should be some negatives and there should be some positives. If all there are positives, it could be a bit suspicious that there's been some sort of selectivity of which research appears. Here, there's been none of that. You see, you can go look at the average effects. Here's the range of effects. So, it's a very, in that sense, very trustworthy set of results. Let me make another comment that comes from yesterday, the notion that, gee, what does it mean that this employee ownership has been raised basically 10% of private sector workers ad-infinitum? And here's an area I don't think we've done enough research on because the person from the banking in the last sector, she said, "Well, we've been succeeding in getting things going in."

So, we've got to put into the equations or the analysis who's going out and it's got to be done in a more of a, I would say, demographic way. So, we study inflows, outflows and growth of people who remain and we really haven't done that. So, I took that as a very useful guide that we should do a study that does that. Okay, now, I want to make a comment about what we might begin to expect as we analyze the new law that we think... Well, it isn't the new law yet, but perspective new law, and if you think about who should get employee ownership and there's a divergence. Some companies will benefit a lot. Some will benefit not so much. I think the people who have it now are the best beneficiaries. If we're trying to extend the margin, it's likely to be people of lower benefits.

If there was a 10% productivity gain, we'd see two thirds of the companies would jump over and it would be like this Italy example that was mentioned yesterday. Right now, I'd say we have no evidence that the marginal people who are coming in are worse. It's a theoretical expectation. If the people who benefit the most come in first, as you begin extending the number of people, you'd see a decline, but we have no evidence of that and that's an interesting testable kind of thing researchers can look at. Actually, before I came here, I had a neighbor who was a management consultant of sorts, and I said, "Oh, I'm going to this conference... employee ownership. ESOP," and he says, "Well, they better not own their own company because that's too risky."

Everybody has heard this and that's one of the places where the research has been incredibly powerful to say no. They're more likely to have 401(k) plans and the people leave with the assets. See, that's the case. It's a reasonable expectation that it's going to be more risky and many economists and business consultants, my neighbor, are very assured that that's going to be the situation and it's not. So, that the research, in this case, came up with positive results for the employee ownership, but it could have come up with negative. Two more comments and then I'll sit down.

The one thing that we as researchers lack in this area is a very clear optimizing model for how employee ownership operates. The max demand for a typical firm that we can live with, that all economists live with, is this maximizing profits, and if it doesn't meet the profit goal, it dies eventually. That's the essential model. For employee ownership, this came up yesterday in many different ways. You're obviously maximizing something that has not only the profits in it, but the wellbeing of workers in it, and then the condition of should it survive. Well, imagine a firm that's employee-owned and the workers are better off and there are social benefits that flow as well from the way the firm is operating, some positive externalities. Well, it shouldn't be that that firm is operating and the profit maximizing. We're not quite sure how to represent it in a very simple way.

Okay, it's fine. My last comment. Thinking about how one's going to look at this law as it proceeds, we're assuming it's passed. I was deeply concerned about what happens if it adds very few workers? What should we be looking at as a goal to go back to the Congress or the people and say, "This succeeded"? I think it'd be very nice to have a research program which we couldn't actually set down a bunch of analyses that says, "This is what we expect." I'll tell you my expectations. First, I talked to Dick May who's sitting here someplace, and I said, "What do you expect?" Because you're very important in this process and thinking about things," and he said, "Well, first thing you better remember is if we have 13 million people today in ESOPs, only three million are in the non-publicly owned. They're in private ownership things. That's where this is targeted largely.

So, we should not be thinking about will the 13 million grow to 15 million or 14 million in a period of time and say, "Oh, that's not very much"? In fact, we should be thinking of we're targeting small firms and then the growth of those firms which will not be adding as many employees as if one large firm shifts and he's going to run me out of here by one less sentence because I thought Jim Bonham's discussion of the five things was really very good yesterday and I told him this. I said, "This is really laid out a research agenda for looking at things," and I'll do one more. He's not raising it. If you had a hook, you see that's... My expectation would be there will be a bigger increase in the number of employee-owned enterprises than there will be of workers and that reflects the being small, et cetera. Now, I'm done.

Joseph Blasi (00:18:22)

Okay, so I've been told that I'm introducing the first few fellows and then Abha will take control of the panel. I'd like to introduce my colleague Douglas Kruse, who is distinguished professor at Rutgers and associate director of the Institute for the Study of Employee Ownership and Profit Sharing. Doug.

Douglas Kruse (00:18:45)

Very glad to be here. Joseph told me I had five minutes and I timed myself out at four minutes, 30 seconds. So, I think I'm okay, although I just spent 10 seconds telling you all that. I've been studying employee ownership for several decades now. When I started, my hair was brown. Now my hair is gray. So, the only logical conclusion is that studying employee ownership turns your hair gray. I think that's obvious. I updated a summary, a policy brief for IZA on what we know about employee ownership. Well, what does all the research evidence tell us? It's just an eight-page pretty reader-friendly thing that anyone is welcome to look at.

It has an honest-to-God elevator pitch. They told me, "Put an elevator pitch up front labeled elevator pitch." So, it's I think a pretty reader friendly thing. Just briefly here, I outlined four categories of reasons that we're interested in employee ownership. One is the effects on firms and firm performance. Richard referred to that. Actually, he did note that theoretically we'd expect early adopters to be the ones who would benefit most and later adopters not to benefit as much. A meta-analysis of over 102 studies over the past several decades found that, if anything, the effects are growing more positive over time, which is really interesting that we don't see this tail off.

Second category is worker outcomes, pay, quality of work life, and so forth. Third category of reasons we're interested in employee ownership is for the overall economy, economic stability and layoffs. Fidan and I have done some work on this and that's really interesting because there may be some, as Alex Brill was saying yesterday, positive externalities in economist language to a greater employment stability, positive benefits for the entire economy, and finally, societal outcomes, in particular, income and wealth distribution, and rebuilding the middle class. That's what we're talking about this morning.

I want to just kick off the session on rebuilding the middle class with three quick facts. One informed prediction and one logical conclusion. The number one fact is that inequality has been going up. That's not controversial. I think we all know that from a variety of... It's been going up in a variety of ways. Fact number two, there's been a shift from labor to capital income. There's a greater share of national income now going to owners of capital than there was several decades ago. Joseph and I found the capital income for the middle quintile of households. The people in the middle dropped over the past three decades. Fact number three, capital income is distributed more unequally than labor income. The top 20% receives 90% of all capital income. So, those are pretty, I think, uncontroversial facts.

The informed prediction is that the shift to capital income is likely to continue. That's what Thomas Spaghetti tells us. Technology is becoming increasingly productive and important in our lives. I think we all recognize how much technology dominates our lives and how anguished we are when our computer's not working. Well, sometimes relieved. It's like, "Oh, don't have to respond to those emails now." So, that's in three facts an informed prediction. The logical conclusion from all that I think is to increase the economic wellbeing of the middle and lower classes. Workers need increased access to capital income through employee ownership, profit sharing, other sharing arrangements and that was a key motivation for Senator Russell Long who put ESOPs into the 1974 ERISA Law.

For my notes here, and Richard's made a nice argument that, "He who owns the robots rules the world." By robots, he's referring to technology in general. Workers need to own the robots that may be taking their jobs in order to keep economic progress broadly shared and avoid a two-tiered society. Employee ownership is not going to help economic well being if it just substitutes for other pay and wealth, but evidence from a variety of sources points toward employee ownership generally coming on top of other pay and wealth functioning like an efficiency wage.

We did a study with a survey of consumer finances by the Federal Reserve and found that it certainly seems to come on top of other pay and wealth. Among the 10.1 million active ESOP participants, average ESOP assets are $180,000. Employees have been with their employer 10 years or longer, have an average of over 300,000 in ESOP wealth, and those large average stakes exist both in publicly traded firms where workers, ESOPs, typically own only one to 3% of the shares outstanding, but also in the closely held companies, majority are 100% ESOP-owned.

If we do see an expansion of employee ownership, doesn't that mean more financial risk for workers? Richard is talking about this. Not necessarily. In fact, risk might even be reduced and I'm a very risk averse person myself, so I'm very concerned about this. Excessive financial risk is a danger, but we found even among the most risk averse of 40,000 employees that we surveyed, two-thirds of them want at least some ownership, profit sharing or stock options in their pay package. These plans generally come on top of market level pay and benefits as we said. So, that greatly reduces the risk. Also, the biggest financial risk faced by most workers is job loss and as Fidan and I and others have found that there seems to be greater economic stability.

Finally, Harry Markowitz, the Nobel Prize winner for portfolio theory, worked with us a bit on this. He explicitly rejects the idea that risk aversion condemns employee ownership. His theory concludes workers can prudently have 10 to 15% of their assets, their own household assets in employee ownership if the rest of their household wealth portfolio is well diversified. Just some quick thoughts. I think employee ownership can play an important role in rebuilding the middle class and look forward to hearing what others have to say about this.

Joseph Blasi (00:25:48)

Okay, so I'm going to invite Richard and Doug to return to the audience as we prepare for the panel and Fidan Kurtulus from the University of Massachusetts at Amherst will give our third and last research presentation. Thank you, Fidan, and then Abha will take control of the panel. It's supposed to be a professor who acts confused. So, I'm sticking with the image. Fidan.

Fidan Kurtulus (00:26:12)

Thank you. Good morning everybody. It's so nice to be here today on this beautiful sunny Washington, D.C. day. My name is Fidan Kurtulus. I'm a professor of economics at University of Massachusetts Amherst. I'm also the co-director of the UMass Center for Employment Equity. I've been part of this employee Ownership Scholars group for about a decade now and it's been a real honor to be a part of it and I learn new things every time I meet with this wonderful group of scholars. So, before I start my comments, I wanted to mention that yesterday's day one meetings at the US Senate were very important.

It was a very important interface between scholars, practitioners and government policymakers, and I was very delighted to hear about the Employee Ownership Investment Act that is being put forward in Congress. I was also very delighted to see representatives from various government agencies, including the Department of Labor. Some of the leadership from the Department of Labor was there, and I got to pick their brain about what data they are thinking of collecting beyond the Form 5500, employee ownership, and pension plans that pretty much all academic researchers in this area have been using now for decades. We need more nationally representative employee ownership data, and he was very interested in this and so that was also a very nice outcome of the meetings yesterday in Congress.

So, I wanted to make a couple of comments about what research has to say about employee ownership and wealth inequality, income inequality. That was what I was asked to talk about today and based on some of my own research with other co-authors. So, an important channel through which employee ownership can strengthen the middle class is by strengthening workers' employment stability during economic downturns. So, in some of my work with Doug, we examined employment preservation at employee ownership firms versus firms without employee ownership using the famous Department of Labor Form 5,500 data and we asked whether firms with employee ownership programs exhibit greater employment stability in the face of economic downturns and recessions.

We specifically looked at the Great recession and we found that employee ownership firms provided greater employment stability and job preservation to their workers. In particular, when the unemployment rate in the overall economy went up by 1%, firms without employee ownership reduced their employment by 3% as opposed to firms with ESOPs that reduced their employment by only 1.7%. So, that's a big difference. We also found that firms were more likely to survive through economic downturns and these results are important for a variety of reasons and highlight the strong positive externalities that employee ownership can have on the overall economy, including from a broad perspective, reducing unemployment and thereby reducing the harmful effects on communities, reducing crime, increasing family stability, improving the tax base. When people get to keep their jobs, all of these positive externalities happen. Also, boosting consumer purchasing power.

So, there's a clear justification for widespread government support to broaden the prevalence of employee ownership in our society, which is why I was very delighted to hear about the new Employee Ownership Investment Act that is going through Congress at the moment. So, I wanted to close my remarks with just some good news about a new research that we are doing using US Census data. We're going to be in working on this for probably the next several years, basically using census data on all firms, all workers and linking it to various data sets on employee ownership so that we can actually look at longitudinal relationships over time between employee ownership and things like income and wealth inequality, things like whether the benefits of employee ownership are growing over time, which is something that Doug mentioned. So, I wanted to close out on that optimistic and positive research note. Thank you very much.

Joseph Blasi (00:32:02)

All right, so thank you very much. I'm going to call Veronica Ortiz to the panel, and again, introduce Abha Bhattarai from the Washington Post and Abha will now take control of the panel and banish me forever. Okay, thank you, Abha. Really appreciate your joining us.

Abha Bhattarai (00:32:24)

Thank you. All right. Good morning everybody, and thank you so much for joining us. The pandemic really forced a reckoning among both workers and employers and since then, we've heard a lot about the continued erosion of the middle class and also about the importance of rethinking the future of work and I'm really excited to discuss ways that we can tackle these two challenges together and with that, I'd like to start this morning's conversation. As we get started, I'd like to ask each panelist to introduce themselves and maybe comment on their opening remarks and we'll go from there. Veronica, let's start with you. Tell us a little bit about yourself and your experience at Web Industries, which is a 100% employee-owned company in Massachusetts, and for those of us who have never been a part of an employee owned company, tell us what that's like.

Veronica Ortiz (00:33:23)

Good morning everyone. First let me say, I'm really honored to be among you all and I've learned a lot these past day plus, so thanks for having me. Again, my name is Veronica Ortiz. I'm with Web Industries, headquartered in Marlboro, Massachusetts. There, I actually work in IT as the business systems analyst manager and our team basically helps design, test, train, implement software systems and support the onboarding of new business.

So, it's a lot of fun. It's hard work, a lot of fun. Again, the Web Industries is a precision converting and contract manufacturing company. We actually were founded in 1969 in a small East Boston warehouse and have grown now to nine sites in three countries. I'm really proud to be part of the Web and we'll talk more as the day goes. Thank you.

Abha Bhattarai (00:34:26)

Perfect. Steve Smith, I'd like to turn to you. We have two Steves on this panel. So, Steve is president and CEO of Amsted Industries Incorporated, which is also 100% employee-owned. Can you tell us a bit about yourself and the company and we'll go from there.

Stephen Smith (00:34:45)

Well, and thank you first to the Aspen Institute and to Rutgers and Joseph Blasi for the opportunity to be here and talk about one of my favorite subjects, how employee ownership can work in a rather large corporation over 35 years now. So, Amsted Industries has been around since 1902. One of our businesses dates back to the 1870s, actually. We're in four businesses. We're in the supply of rail parts and then the supply of truck parts and the supply of automobile parts and then also cooling systems as well. We're four and a half billion dollars in revenue now, 65 plants around the world, headquartered in Chicago. I am proud to say since we became an ESOP, we became an ESOP in 1985, went 100% in 1998. So, this is a 38-year test run here, which seems to be working out pretty well. I'm proud to say we've created over 2,500 millionaires during that time, many people working on the floor.

If someone starts at a very modest level of $50,000 a year, annual income, by the time they stick around for 27, 28 years, they will be a millionaire. If they start at 100,000, they could be several times over a millionaire. I used to be embarrassed to say that, but with life expectancies being what they are and people retiring at 60 or 65, many will live into their 90s. That's the sum you need to have a comfortable retirement and studies have shown in fact that 90% of ESOP participants feel secure about their retirements and that's the reason why. One of my favorite stories I have to let in is at our Baltimore Aircoil business. One day we had just announced our quarterly stock price, as we always do, and one of the workers, his supervisor, came up and the worker on the assembly line was just beaming.

He was happy as could be and he said to his supervisor, "Joe, I'm really happy today," and the supervisor says, "I can see that, but why?" He says, "Today I'm a millionaire," and it's stories like that that absolutely keep you going and make it work. It's a competitive advantage. People talked about the Great Resignation. We had 50 people who started in a cohort of our up and coming leaders around the world that we brought together at University of Chicago Business School for three years of training during COVID. They came in quarterly. So, these are obviously key people that are building our future.

We didn't lose any of those people during these supposed Great Resignation because they are engaged. It's a competitive advantage that our employees are engaged because they own the company. It makes a difference, but it also affects how management behaves as well too, because ESOPs are structured as a trust from a legal standpoint, but it's more than just a legal relationship. It is a relationship with your employees and it affects how management views risk and you don't do things for your ego. You do them for your family that's scattered around you. So, it's a powerful structure and I'm proud and always glad to talk about it. So, thank you.

Abha Bhattarai (00:38:04)

Tomás Durán is president of Concerned Capital. Tomás, tell us a bit more about yourself, about Concerned Capital and how it fits into the larger picture here.

Tomás Durán (00:38:12)

All right. Well, good morning everybody. Thank you for having me. Maureen, it's great to see you, and I'm really excited to share our story and our approach. It's hard to follow Steven. I mean, from the heights of creating millionaires to where we operate is really the grassroots. We use employee ownership to fight gentrification. We use employee ownership to create the shortest path to the middle class in the Southern California area. I'm an urban planner by training, and what I've done is look at systems and how they interact with each other and found that we have this enormous concentration of manufacturing in Southern California, but it's job shops. There's 8,500 job shops in the supply chain in Southern California. Almost 90% of them are owned by people who are past retirement, but more importantly, they're people who are relying on the sale of that business to fund their retirement, and they've been through three major economic events that have impacted how they look at the world.

So, when we come into this space and we talk with the workers and we talk with the people about employee ownership and that path forward or that exit for the owner, it's a real complicated space, but it ends up being something that's a viable option for those retiring owners, but moreover puts those employees in the driver's seat and it energizes those companies in a way that it's really hard to do beyond that, and the last thing I'll mention is that we love employee ownership because it's the fastest way to sidestep the institutional racism and barriers that keep entrepreneurs of color from starting their own businesses.

If the path to wealth in this country is business ownership and home ownership, but it's continually blocked by things that have been institutionalized, whether they're on purpose or not, it's a real nice way to sidestep that. When you go into a bank and you're the owner of the company and you're trading on that company's track record, you are asking for debt based on how that company's performing, not necessarily who you are as a person and that's been a really good way for us to sidestep a lot of those things and shortcut that process.

Abha Bhattarai (00:40:29)

And Steve Storkan, you are executive director of the Employee Ownership Expansion Network and have been involved with ESOPs for more than 25 years. Tell us a bit about yourself and what ESOPs can do to strengthen the middle class and forge these connections.

Steve Storkan (00:40:46)

Well, thank you very much. Hard to follow these three with getting applause and all the great things, but I'll do my best. Thanks for having me. I really appreciate the Aspen Institute, Rutgers, and everybody involved. I thought yesterday was a great day. For those of you that were not there yesterday, one of the speakers that resonated with me the most was David Hincapie who runs the Small Business Administration District Office here and he stopped and he said to us, "Imagine something. Imagine if two-thirds of your city or two-thirds of your state or your county, think of your region. If two-thirds of that place had worker owners, what would that community look like? What would our society feel like? What would change?"

Well, that's why I get up every day. That's why the people that work with me get up every day. EOX is a national nonprofit that creates, sustains, and helps a network of state centers for employee ownership. We are the boots on the ground in a state that tells everybody about employee ownership. I say whether we can get an audience of five or 5,000, whoever has an audience, we will go and we will speak. We're going to talk more about how that works and how we do that in a little bit, but this was started inside of the National Center for Employee Ownership in around 2014 or '15. We became an official nonprofit organization in 2019. At that time, there were eight state centers for employee ownership.

There are now 21 state centers for employee ownership and the staff of those, like I said, are the boots on the ground helping business owners, their advisors, community leaders, again, anybody and everybody that we can to tell them, to help them imagine what it would look like because we also heard yesterday Jim Bonham and others had all of these, you know, the five things that are barriers to entry, and we talked a lot about all of them except for one that kept coming up, which was awareness and knowledge and education and that's what I'm passionate about. So, I'm glad, happy to be here and happy to share some more. Thank you.

Abha Bhattarai (00:43:04)

Thank you. Steve Smith, often in these conversations about employee ownership, we tend to think about the outcomes for businesses as separate from the outcomes for workers, but obviously those things are very connected and I was wondering if you could talk a bit about how those two pieces come together at Amsted in terms of worker success, business success, and also overall culture.

Stephen Smith (00:43:25)

Well, as I said, it is a competitive advantage that your employees own the company. They are engaged at a level and they are benefiting from the fruits not only of their labor, but the capital as well and it just brings an attitude that therefore when we're dealing with customers, they sense it. They understand that they're dealing with an owner. They're not dealing with just someone doing a job and so it propels the company, and the attitude of your worker and the satisfaction level of your workers makes you a better company and then being a better company is a very productive loop there. It makes the workers happier too as well. So, the two come together very naturally for us actually.

Abha Bhattarai (00:44:10)

And you touched on this a little bit earlier, but can you talk a bit more about how this played out during the pandemic and the period that we now know as the Great resignation? What did things look like internally for your company then?

Stephen Smith (00:44:22)

I have to say it really proved itself during the pandemic. We're in critical Industries. We didn't get to sit at home. We had people having to work from day one on the line, and we had to do it in very different ways. We had to really alter the layout of our factories and do a lot of things to keep people safe, but there would not have been trains running in the United States or trucks running or cars being built or buildings being cooled where we still not working and our people stepped up without fear, with courage and I always felt that we couldn't have a two-class system either. We talk about divides in our society right now.

We weren't going to have a world where the office workers were hiding at home and everyone else was laying it out on the line all the time and the attitude throughout the company of stepping up and staying engaged, doing so in a safe manner, but staying engaged. It really played out during the Pandemic, and frankly, we're a better company for it. Our people learn that they can adapt to any set of circumstances, and as an owner, that's what you do and it was just reflected throughout the company. So, it was a powerful test of our structure. I'm glad to say we were highly successful and we're a better company for it now.

Abha Bhattarai (00:45:39)

Fantastic. Tomás, I'd like to dive in a little bit more into Concerned Capital's approach and tell us about what stage you start working with businesses, how does this all work in practice, and can you give us some examples of what this transition to employee ownership looks like on the ground?

Tomás Durán (00:45:55)

Sure. I love talking about myself. So, as I mentioned earlier, we come in at that grassroots. It's when these little job shops, they're at 49 because Obamacare kicks them at 50, kicks them into Obamacare, gets more expensive to operate, but at 49, they can grow and operate and have a nice level of operation, but at some point there's a life event. That's when we usually get called. My business partner, Bruce Dobb, and I have been working with manufacturers in this space in Southern California for 30-some-odd years and usually we get called by a banker or an accountant or one of the local economic development groups saying, "Hey, this person had a life event. This place is in danger of closing." So, it's a sudden and severe event that triggers us coming in and going, "Okay, let's figure out how to keep this ongoing concern, still moving forward, capture that goodwill in those jobs and maintain that ability or maintain that capacity for the local supply chain."

So, we'll come in early and figure out what that path forward is. The goal is always a 100% ownership of these businesses, but if we need to save the job by doing a transition or creating a ownership model that creates a path to ownership for everybody, but maybe concentrated in a few people at first or creates a profit share or creates a shared government's model so that the employees feel that they own it and want to stick around, that's how it always starts and then we create the space to develop that culture of ownership that allows for co-ops or ESOPs to come in, but with the time that they need to be implemented well and I think that that's the key part of it. It's being ready and being able to access tools like layoff aversion, being able to access different programs that are out there to support these businesses, to get them past that rough time because that life event has triggered a crisis in that business.

Abha Bhattarai (00:47:46)

And so when you are coming in during a crisis, what are some of the biggest obstacles and challenges that you guys face? And where are the opportunities? How can you transition from one to the next?

Tomás Durán (00:47:55)

Lawyers. A lot of times what happens if the owner doesn't have a succession plan, it triggers to a trust, and then you have a lawyer who's managing the trust, making decisions about the business and oftentimes because they're risk averse, the easiest thing for them to do is shut the business down and so you have a very small window of time to demonstrate to the family and to the owner, and in that space, hey, there's another option here and realistically, when you have someone who's near retirement age, they're absentee owners already anyway and so the company can run itself.

So, we come in and just help package that idea in a different way because most of the time when you're telling an owner that you want to sell the business or their employees, the first thought is, there's no way. Those are workers. They can't do what I do. They don't understand payroll. They don't understand what it's like to have to carry insurance. They don't understand wage and hour lawsuits, but it's getting past those initial things that create the space for something like this to work.

Abha Bhattarai (00:48:58)

Perfect. Steve Storkan, talk to us a bit more about these state centers and why that local approach is important here. Is this a model that works for everybody? How do you fit this to the companies that you're working with?

Steve Storkan (00:49:12)

Yeah, so I think piggybacking off what you said, employee ownership has been around since... Well, ESOPs have been around since 1974, and we heard from Joseph yesterday that employee ownership has been around since George Washington's days, but with ESOPs and employee ownership, and specifically ESOPs, ESOPs have been sold, and I'll use the word sold because I used to be a practitioner. I never thought I was selling a product, and I know you don't feel like you're selling a product, but what I've learned is I've switched over to this nonprofit side. The business owners look at us as selling a product. So, the state center's role is to be a safe place for a business owner, a community leader, an advisor that doesn't want to look dumb because they don't know what you're talking about.

It's a safe place to learn about employee ownership and we're agnostic on what types of employee ownership, worker co-ops, employee ownership trusts, ESOPs, but it's a place for them to come with unbiased advice and to learn and to not feel like they're being sold the product, and we've seen that work. The more we create these centers, the more we do the storytelling, the less they feel that they're being sold the product because it is too good to be true. I'm a business owner. I've never heard about this. How could I never hear about this? Of course, this isn't true and so that's the main purpose of a state center is to be that safe place to share that information. We do that through storytelling.

The number one way that we can do that is to not bring someone like me who has all of this knowledge about ESOPs and pretend like I'm speaking at their level or making it as easy to hear as possible. What I need to do is I need to bring Steve. I need to bring Veronica to the room and tell their story and when I have a business owner in front of a group or one-on-one and tell their story, they now listen and we are now in the room where it is going to happen. According to the Hamilton song, we just want to be in the room where it happened. We know it's not best for everybody, but right now we're not even outside of the building. We might not even be within three blocks. We just want to be in the room that it happens and so that's what the state centers are doing with a very limited staff right now, very limited capacity, but they're trying across the country to tell that story.

Abha Bhattarai (00:51:40)

Perfect, and that's a great transition to Veronica. Veronica, can you tell us in terms of culture and just being involved in day-to-day decision making, what does that look like for you? And I'm also interested in what working for an employee owned company means for you and your co-owners in terms of both your work life and your personal life.

Veronica Ortiz (00:52:00)

Thank you. Well, at Web, really the leadership insists, requires engagement from all employees, and we're actually all employee owners and we're happy to do so, and we do so in practical ways. We do things like book clubs where we learn together and share ideas together and collaborate, and then we actually had one particular book club that turned into an implemented program. That book was Ideas Are Free. We read it as an organization. I'm going to remember, Alan Robinson and Dean Schroeder, and this was actually an amazing catalyst to really promote continuous improvement throughout Web Industries. It engages everyone at all levels in small teams. The investment in time is very small. The teams are actually given the gift of being empowered to make the change if the team agrees on it, and a budget to do so as well.

So, that's something that really has facilitated a lot of positive change at Web and certainly a lot of buy-in from all our employee owners overall. Throughout the years, we've also done a lot of brainstorming, again, involving everyone at every level at the company on how to achieve the company's objectives for the year. It's a really powerful tool when you gather everyone from the operator on the floor to your plant manager, and sometimes also the C-Suite participates in this as well, where you're really together figuring out how you're going to be involved in increasing profits by 50%. It's really something that I don't think your regular company would do and something our employee owners truly appreciate.

So, working at Web, that definitely impacts the kind of culture we have. It's very much a family. I know you hear that over and over again from a lot of employee-owned companies. Most of us are just happy to go to work, happy to work together, and happy to grow the company and it really has a monetary impact as well. So, we've seen over the last 12 years, a steady increase in stock value of about 14 to 15%, and that includes a significant dip that occurred back in 2020, as you can imagine, when COVID hit us, and one of the Industries we serve is the aerospace industry. So, you can imagine that the aircraft companies were not purchasing parts to make new airplanes.

Our employee owners actually really, really came to task and we had people come from all of our sites, including our European sites, to assist in what was a pivot in business. So, instead of serving the aerospace business, we concentrated on the medical market. We expanded one of our sites in Massachusetts actually to make lateral fluidic immunoassay devices or strip tests in other words like you would use for diabetes, but now we're making COVID tests, and this all-hands-on-deck effort, we had the CEO, the CFO, an operator, customer service, all in one line packing COVID tests to be shipped out and it's one of those milestones within the company and we knew that we were helping our company survive and really the plans for our wealth in retirement.

Abha Bhattarai (00:55:45)

Fabulous. Steve Storkan, state centers are poised to grow, especially with the recently passed Work Act. I was wondering if you could offer your final reflections on where that work is headed and what the future looks like.

Steve Storkan (00:56:04)

Looking for me?

Abha Bhattarai (00:56:05)

Yes.

Steve Storkan (00:56:06)

Which Steve? We got Steve S., right? All right. Well, before I get there, I do want to say I had the pleasure of visiting Web Industries with Congressman Courtney and one thing I never thought of is, as we all open those COVID tests over and over and over again every single time, we had a sniffle. Every single piece that was in that COVID test came from a different manufacturer and here at Web Industries, there were six lines in a clean room, and each one of those pieces was put into that box by an employee owner. That blew my mind that we're opening these things thinking it's just... Excuse me. I don't know. I didn't know what I thought, but I had no idea. So, every time I opened it, I thought of Web Industries, but as far as... So, it was just great to see that an aerospace company is now... I mean, the pivot, that doesn't happen, and that's employee ownership. It worked.

As far as the Work Act goes, for those of you that don't know, the Work Act was passed in December of 2022 as part of the omnibus spending bill, and it authorized $50 million for the spending on education and outreach at the state level, specifically on employee ownership. Offers technical assistance, grants, other things that'll be housed in the Department of Labor and so starting in 2025, that 50 million will be passed on to the states through a grant making process. Now, 50 million, when I first started to hear that and I heard that it got passed, we definitely celebrated because what else could help a state center? What else could help many of our partners in this room who do outreach and education with us?

And then I started to look at the numbers and the numbers show that if every state were to try to access the maximum grant on your number one of 300,000, that gives us 13 states that have the ability to receive federal dollars to do this outreach and education, and if we all try to play nice and share the 21 state centers so far and the other partners across the country, we will be able to do a little bit. So, we are part of a movement. We are part of a movement that's going to change the way business is done. I sometimes wonder whether or not the movement is here only and the people are not hearing us, but we're going to take those dollars and try to increase that movement, but what we really need help with is increased capacity at all levels.

We hope that these conversations that we're having with the state governments about housing state centers, getting some state buy-in, maybe a state center or office for employee ownership inside of state that will help create these conversations to say there is more funding that is needed. We're seeing a lot of impact investing. We heard a lot about impact investing yesterday. I'm so excited about the EIA bill, all the things that Jack and the ESOP Association and others are doing to bring capital to the table, and we're seeing a lot of capital come, but are we going to be able to fund the pipeline and the activity that's needed for people to invest in these job into these companies?

Because of COVID, we're seeing business owners coming out of the woodwork saying, "I don't ever want to go through that again." I had seen a business owner who said, "My wife said to me, 'You're an absentee owner, but you're really not an absentee owner and you will sell the business. We need to retire,'" and he was happy that he found employee ownership. So, all of that being said, we're trying to come together to get that capacity so that we can have the outreach and education and I'm super excited at where it's going, but I'm just a little bit hopeful also that we can bring more people to the table, because right now, I think the table is too small.

Abha Bhattarai (00:59:49)

Perfect. Veronica, we were talking before the panel about how you've been at Web Industries for 19 years and how that's a rarity these days. A lot of younger workers move around a lot more often than that and I'm wondering if you could talk to us about, as we look to younger workers as the next generation of employee owners, what are some of the things we need to be considering and need to be talking about?

Veronica Ortiz (01:00:11)

Thanks, Abha. We definitely have a workforce at Web where we have many people with longevity. We tend not to want to leave, but the newer generation coming in may not see it the same way and so we've definitely had to think of ways to make Web a compelling place to be. Certainly culture is one of those through doing things like engaging them in day-to-day decisions and empowering them to make changes to make their work life better, but also there's more tangible things that are needed, and an ESOP certificate that is a... although it's awesome to look at. I appreciate mine every year. It's not something they can always relate to when it's 40 years out, right? So, what can I get sooner? So, certainly, we heard some talk about profit sharing. Web does that as well, and that's definitely a helpful tool, I think, for creating that compelling environment to retain younger employee owners, but we had to also turn to education.

And not just educating about ESOP and, hey, here's an employee who's been here 10 years. Look at what their certificate... of course, without names and such, what their certificate looks like and how much you could be earning if you were to stay here for this amount of time, but also incentivize with education. We have some people entering that maybe have some college or maybe couldn't afford to pursue a master's and always wanted to and so, yes, a lot of companies offer tuition reimbursement, but can we do it a little bit better than most companies do? So, Webb's Education Assistance Program actually prepays tuition fees and books 100% for every employee who has an approved curriculum at a college.

Of course, there are some limitations, like we won't pay for Yale or Harvard. The monetary assistant is basically limited to an in-state state university tuition, which is great. We have UMass in our backyard if we're in Massachusetts, which is an awesome institution and there are many great state institutions. So, those are definitely some of the ways that we're working on holding on to our younger workforce and so far, we're having a pretty good track record.

Abha Bhattarai (01:02:36)

Tomás, excuse me. There's been an increase in community development, financial institutions, that are working with employee-owned companies. How important are these partnerships and how do you at Concerned Capital help forge these connections?

Tomás Durán (01:02:50)

Well, they're super-duper important, to use a technical term. Concerned Capital is small and scrappy. In order to have impact, we need to have mission aligned partners that can help us amplify what we're doing and so we look around and find people who are going in the same direction, but may not have the desired outcome that we have and we ride with them along as long as we can to get that desired outcome. One of those was actually the Aspen Foundation and the Aspen Institute and then that's why I became a job quality fellow.

So, doing those things and connecting allows us to amplify that impact. We're actually doing a program right now that's funded by JPMorgan in conjunction with Common Future and their Urban Manufacturing Alliance called Tools for Equitable Acquisition and Manufacturing Team, and what it does is train CDFIs and how to identify potential businesses that are already the borrowers, that are ready for a transition and ownership, how to use a technical assistance funding that they have from the federal government to provide the programming for the employees that want to buy the business, but also to connect to exit planners to help that owner really make that decision to leave the business. So, by working with those CDFIs who are already positioned in local economies, who care about the local living economy and want to recirculate those dollars there. It's a perfect match for that.

And before I let go of the floor, I want to mention one thing, cybersecurity. A few years ago, I worked at the University of Southern California and their Center for Economic Development on a DOD funded program to strengthen the competitiveness of the defense supply chain in Southern California. Cybersecurity is the biggest issue. It's one of the reasons why people are selling their businesses. They don't want to invest, they don't have the money to invest to create new processes, to create new policies, to buy new servers. So, it creates a real threat. CDFIs are there to help bridge that and in terms of the monetary, but there needs to be someone who can help them understand or has a desire to learn that new trick, which is oftentimes the employees.

Now, I'm bringing this up here because it's not too far off, not too far in the future that business insurance premiums are going to be based on how cyber secure you are that the ability to get federal contracts or be in the defense supply chain will depend on whether or not you're compliant with the federal government cybersecurity. Now, it's going to hit defense first, but it's going to go to the hospitals and everybody else later. I'm bringing this up again because happy employees are more careful about how they do things and the number one breach in cybersecurity, the number one problem is employee error. It's someone picking something up, someone leaving something open. It's doing things that can be totally avoided, but that happy employees are more content or more involved employees or owners would be a little more careful about because they don't want their own company to be open to that risk.

So, as we start talking about public policy, we start talking about different ways to encourage this, and understand that cybersecurity is going to be huge. Employee ownership can be the thing that gives that company a competitive advantage, but also, and it's not only in federal contracts, but in the defense supply chain and other supply chains.

Abha Bhattarai (01:06:17)

Perfect, and one final question before we open this up to the audience, but Steve Smith, I'm wondering. We've discussed already, employee ownership has a lot of bipartisan support, which can be very rare these days. I'm wondering if you can walk us through that. Why does it have this bipartisan support and where should the conversation go from here?

Stephen Smith (01:06:37)

It does have great bipartisan support. I'm always pleased that I see that on both sides of the aisle. Chuck Schumer has always said, "How come there's not more of these?" For the Republicans, it's the ownership society and for the Democrats, it's almost socialism, right, in a certain sense, and I always say to members of Congress, "You don't get credit often, but this is something that you did quite a while back and it's worked really well and it's proven itself and it needs to stay strong." I appreciate all the comments from my panelists though. People who are thinking about what to do in the transition of their business often don't even think about this structure and so what you're doing, Steve, I think is so crucial to make sure that there's broader awareness out there and there also are impediments. The lawyers Tomás mentioned, and I'm a lawyer by training, I have to admit, but it's complicated sometimes, and people can come and say, "Ah, I can get you a sale right now. It's easy. You'll get your cash right away." It's a little more complicated.

And the Department of Labor, their job under ERISA is to protect retirement plans and ESOPs are a retirement plan, but that's another layer of complication people have to complicate. There were deals done right before the 2008 crash, which were then reviewed after that crash and under that prism, sometimes those could be challenged and so someone considering whether or not to do an ESOP, that's something they had to consider, that there were those kinds of complications and finally, right now, maybe something that hasn't been talked about at this conference is the OECD. Some of you are aware of Pillar One and Pillar Two and Pillar Two would impose a 15% minimum tax on companies worldwide at the entity level.

Well, the one thing that Congress did so well was provide a very beneficial tax structure that helps these ESOPs survive in the United States and if that under OECD, if those companies then became subject to that 15% tax, that would be very bad for ESOPs going forward. I think the Department of Treasury is aware of this. I know ESCA is working with them on that issue, and that's an issue that over time we want to make sure gets resolved appropriately with the OECD as well too.

So, all those things come together, but it's been an incredibly successful model and I'll add on cybersecurity too. You're exactly right, Tomás. We have 20 people who full-time just spend 24/7 doing nothing more than monitoring our company. There are state actors out there right now. We were in Russia before the war began. We do a lot in China and there are state actors out there right now who are often attacking and you need to have robust... and we spend millions of dollars on that just having robust defense. It is a crucial competitive consideration. So, thank you.

Abha Bhattarai (01:09:31)

Thank you, and if you have a question in the audience, please raise your hand and we'll get a microphone to you. I see some over here.

Speaker 11 (01:09:39)

Don't need a microphone.

Speaker 12 (01:09:42)

Otherwise, I can't hear you online.

Speaker X (01:09:42)

This one here.

Speaker 11 (01:09:48)

Okay. I visited 592 companies in my career in the ESOP world. I will tell you, I send tribute to the Aspen people and to the Rutgers people for having Amsted and Web Industries. You can imagine 592 companies. Some were wonderful. Some were average. Some were great disappointments. I also understand why so many members of Congress, no matter what their politics are in the big picture, are impressed when they're around ESOP employees. I thank Aspen. I thank Rutgers for having Amsted and Web speaking to this group today. Thank you.

Abha Bhattarai (01:10:36)

All right.

Speaker 14 (01:10:41)

Things that I think come up a lot that we don't know the answer to when we try and figure out why there's not more employee ownership on what the barriers are, are whether we have a challenge with our product. You know, complexity, cost, lawyers regulation, litigation, Department of Labor, lack of capital to make substantially all cash transactions, or whether our problem is a marketing problem. Awareness, knowledge of the idea of an ESOP and how to accomplish it, and thirdly, of course, misinformation, which is incorrect knowledge about what ESOPs do and don't do.

I'm wondering whether there is and how we can have some research into the marketplace to figure out whether our core issues are product issues or marketing issues? I've tended to believe with my own experience that it is much more of a marketing problem. It's much more of an awareness issue because I have not had in my experience of going out and talking to the world about ESOPs and trying to accomplish them. I haven't found that things don't happen because people say, "Well, there's too much litigation," or, "It's too complicated." Now, I talked to the selected group of people who are aware and have become interested, but I'd love to both hear comments and ultimately to see some real research about how business owners make decisions and whether ESOPs are part of the considered set and why they don't choose an ESOP if it is part of the considered set.

Steve Storkan (01:12:29)

I can address what we're seeing just in the four and a half years that we've been out there doing this, and there are other state centers that have been around for a really long time that say the same thing. We would agree that it's awareness and knowledge, and that if someone comes to us and they are ready to exit their company or change the ownership that they're not coming and saying, and then leaving and saying, "Well, that was just too much. That was just too complex." If they come in the door... Unfortunately, right now, most of them that are coming in the door are not ready to exit. They're simply saying, "I now have to exit. I got to start thinking about this. I should have done this a long time ago," but if they come in the door and they're starting to get the information, they may not take the employee ownership route because there are other things that happen, but it's not because of the complexity or the misinformation.

I would love to see whether or not from a study standpoint that proves that, but there are no statistics. We want to make sure, and we're starting to get baseline data with the people that come through the doors if they don't go employee ownership, why? And so we're starting that. I'd love to have some help on the research side. We're doing it anecdotally, but I think that's a key stat that we have to find out.

Maryanne Beyster (01:13:52)

Hello. I'm Maryanne Beyster. Thank you all for being here. Tomás, I'm very excited about hearing your efforts with CDFIs. If I understand correctly, we have about a thousand CDFIs serving rural and urban communities across the United States. I've had the honor of supporting several of them that have recognized employee ownership and cooperatives as part of their mission. I'd like you to comment on how many CDFIs understand and offer support to employee owned and cooperatives and through your training, how many are you trying to reach? Two other questions are how can we help spread the word and what research opportunities do you think there might be?

Tomás Durán (01:14:31)

Well, thank you for asking the questions. I mean, I'm a big fan of my own voice, so anytime I get to talk a little bit more about it. Look, I think we have a challenge in the CDFI space right now because there are some that are very oriented towards profit and growing and growth, and they're directing their efforts towards partnering with private equity and venture capital to move things forward, and employee ownership doesn't fit in those spaces. When you have the core of the CDFIs, which I want to believe is more of them, but it's becoming farther and fewer in between and more competitive to raise money. So, it's a challenge, but there are some really core CDFIs that are good and who are focused on doing that type of work.

I think the opportunity for us is to tell this story in a way that makes it compelling to all the CDFIs that this is a way to not only increase the number of borrowers that they have available to them, but also can help them raise capital or that's concerned about this issue from mission aligned capital sources, as well as how they can make an impact that that's part of their charter. I think the increased attention on it at the federal level, especially from the Department of Treasury and from the different parts of the government, are also influencing those kinds of things, but it's messaging and we just got to keep at it because again, CDFIs, I think a lot of times in terms of time, right? When I'm trying to make that case to somebody, it's like, "What time frame are you thinking?" Right? A CDFI might be thinking quarterly in terms of, "What are my numbers? What bonus am I getting?" Or, "What do I have to do in this quarter to figure this out?"

So, how do I make that easier for them to hit those quarterly numbers? How do we package this in a way that makes it more compelling to them? Whereas the owners that I'm talking to are usually thinking about the next payroll cycle. If they're in the strategic planning for longer, it might be the next quarter, but understanding what the different audiences' timeframes are has been the most helpful thing for us to get the CDFIs. We've trained four right now that's part of the first cohort. We'd love to open it up and do additional training for it now that we've developed the curriculum and the programming. We're working with, like I said, Common Future and UMA on spreading that out across the country. The initial four are CDCs, small business finance, CRF USA, up in Minneapolis, PCR in Los Angeles, and Mountain BizWorks in Asheville, North Carolina. So, we're trying to hit all over and move it forward.

Steve Storkan (01:17:19)

And just real quick, I think the State Small Business Credit Initiative, which is the funding for the State Small Business Credit Initiative, SSBCI 2.0, is a huge opportunity. The state centers are working. I can't wait to talk to you more about your program. We're trying to do the same thing, but the dollars that have come into CDFIs from all the different programs, but specifically SSBCI that says, "Employee ownership is an authorized use." We have a huge opportunity. So far, no one's taken us up on it. It's like you said, they're too busy. It's just not in their wheelhouse right now and we’ve got to change that.

Abha Bhattarai (01:17:53)

Great. We have time for one last question in the back.

Speaker 15 (01:17:56)

My question is for Veronica. Successful employee-owned companies that last any amount of time create their ownership culture ultimately face a key challenge of leadership transition whether it's the founder leaves or a longtime CEO leaves. Web Industries recently went through that process. Can you speak to that, how you dealt with it from an internal employee perspective and a general sense of how it went?

Veronica Ortiz (01:18:23)

Thank you for that question. That is definitely a challenging time. You are not mistaken there, and it's difficult for those of us who aren't necessarily on a C-level role to affect that change to indoctrinate, if you will, the new C level folks into the culture of Web, but thankfully, because we have those relationships, and I think Jen Briggs mentioned yesterday that the culture happens when you have... and I'm paraphrasing, but this connection, the connection of people that we are very comfortable with the C-level suite. We can have challenging conversations, and they may not be able to give us a response right away. They're not going to reprimand someone for not fitting into the Web culture right away, but they will work through training them and indoctrinating them into that culture.

So, I talked a little bit before about book clubs and just implementing systems to aid in growing that culture. That happens on a leadership level as well. There's a lot of training. There is recognition that we had some gaps in really living that culture on a leadership level and so our team, actually, our leadership team, is working with the Brown Center and going through the advantage and really in an effort to remove politics out of their management style and really, again, embrace the culture that Web has had for many years now. And also I should say, along with that training that happens on leadership level, and on all levels, there is a heightened social sensitivity training, if you will, so that we learn to work well with one another regardless of roles and titles. Thank you.

Stephen Smith (01:20:25)

I'll just add, CEO succession is something that's near and dear to my heart too, and there's a strong bias towards an internal success or if at all possible, and I have an entirely independent board, which not all ESOP companies do, but I work with them assiduously to make sure they understand how important the culture is to our success and so they will understand when dealing with the successorship issue that that has to be a paramount consideration as well.

Abha Bhattarai (01:20:54)

Fantastic. Well, thank you all for a fascinating conversation and for joining us this morning.